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The New Look in Wage Policy and Employee Relations

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A Research Report from The Conference Board

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Highlights

Major Findings

- Corporations have switched their wage-setting policies from imitation of other companies' wage increases, toward internal criteria. Under growing competitive pressures, companies now base wage changes on labor cost per unit of output, and on expected profits.
- This fundamental change in wage practice has contributed to continuing wage moderation, even after two years of strong economic recovery.
- In union bargaining, companies that were inclined to grant more liberal health benefits and more time off with pay in the late 1970's, now are demanding—and getting—reversals in these two benefit areas.
- Companies that share information on business performance with union employees report a higher level of morale in unionized units.
- Companies that arrange group performance feedback on output level and quality report a higher level of productivity and greater employee acceptance of new technology.
- Operating line management (as opposed to staff) is increasingly involved in human resource planning and development.

Coverage of the Chapters

Chapter 1 describes the setting for a fundamental change in wage determination. The persistence of wage moderation into the third year of a strong economic recovery is attributed to competition. Unions have lost their industrywide wage influence. Management has the upper hand in more situations than heretofore. Follow-the-leader compensation thinking has diminished throughout the economy.

Chapter 2 focuses on wage objectives in the largest bargaining unit of unionized companies. The data show that the wage imitation of the 1970's has given way to a new emphasis on costs of production and other internal considerations in response to competitive pressure. The concession bargaining episode of the early 1980's is covered with data on company initiatives and union responses. Finally, an analysis of bargaining on items other than straight wages shows a major shift: Health benefits, once the major trading chip, are now the major cutback objective.

Chapter 3 indicates the extent of some innovative practices in *nonunion* employee work forces. These are grouped as information-sharing, participation, and compensation techniques, and three miscellaneous nonunion employee-managing practices. The Conference Board's three publications (on information-sharing, participation, and grievance systems) are referenced.

Chapter 4 describes a changing overall relationship of management with unionized employees, and with the union. Both relationships are more smooth and stronger than they were in the late 1970's, according to management. Innovative techniques are also being used in unionized locations, with little union resistance and some union support.

Chapter 5 examines the shift of management's concern away from labor relations and toward human resource planning and strategy, development, and productiveness. It documents the allocation of various human resource and employee relations functions within the firm's management structure.

The Why and How of This Report

In 1978 The Conference Board surveyed 778 companies, 110 of them completely nonunion, about their employee relations objectives, strategies, management and results of that management. Companies at that time reported satisfaction, on the whole, with their control; they described "a mature system...that is working rather well."[1] The relative calm was broken within three years, as anecdotal evidence of major changes in union negotiations began to build. There seemed to be more employer interest in employee involvement. Fragmentary evidence of a shift in labor-management relations suggested that two back-to-back recessions, one the most serious since the 1930's, and sharp increases in competition may have upset the balance and the conventions of the 70's.

[1]In Audrey Freedman, *Managing Labor Relations*, The Conference Board, Report No. 765, 1978, p. xi.

In late 1983, The Conference Board returned to the companies in our 1978 survey with some of the same questions, and some new ones. Companies on the *Fortune* 1000 list that were not in the original survey were added to the sample.

In only five years, the amount of industry change that occurred was extensive enough to cut the number of companies available for resurvey by 42. Mergers and acquisitions changed the shape of the responding group and affected the number of potential "matches" of both company and major bargaining unit. One respondent said, for example, "the company covered in the questionnaire five years ago is now four companies; also, we have undergone two reorganizations." The mailing and response levels were as follows:

Company Category	*Mailed*	*Responded*	*Response Rate*
Resurveyed unionized	633	302	48%
Resurveyed nonunion	103	42	41
New	674	160	24
Overall	1410	504	36%

Change was also severe within bargaining units. Of the 302 potentially matched largest bargaining units, only 257 remained five years later. (The identifying information for the major bargaining unit of 1978 was returned to each resurveyed unionized company with a request that they respond for the same unit—whether or not it is still the largest one.)

Author's Acknowledgments

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Why This Report

One of the drags on U.S. competitiveness in the 1970's was racing labor costs. Compensation rose rapidly, while output per hour remained nearly flat. Why was compensation allowed to rise? Part of the reason was employers' imitative wage-setting habits. Part was the fact, in some employers' conventional thinking, that higher labor costs could be recouped by raising prices. The wage spiral was part of management's and the union's way of life.

That way of life is changing in the 1980's. The economics of competitive business operation are forcing a change in compensation conventions that have *reduced* unit labor costs in manufacturing for two years (1983 and 1984). This disinflationary phenomenon is contributing to the rein on price inflation, even in a strong recovery. The Conference Board, in this study, reports on the changes within corporate management that have led to a fundamental change in wage policy.

The Board is also innovating in this study: The data on which this study is based are being shared with universities and research institutions. The product that will flow from this experiment will be dozens of articles and books examining many facets of business policy and management in the mid-1980's. The study was done in The Conference Board's Human Resources Program Division, Walter S. Wikstrom, Director.

JAMES T. MILLS
President

Chapter 1

Pressures and Counterpressures of the 1980's

AT THE BEGINNING of this decade, something happened to the way that major corporations manage employee relations. Changes have occurred in compensation strategies, in union relations, and in the extent to which corporations involve their employees in business operations. Labor relations, which exhibited great stability and inertia in the late 1970's, has experienced the greatest turbulence. But the pressures that fragmented labor-relations structures and traditions also operated on conventional employee-relations and wage practices. In both union and nonunion situations, the trends have been similar: (1) a major decline in wage imitation, and (2) a growth of management efforts to involve line employees in the business. Wage imitation—the rippling of similar wage increases throughout both union and nonunion work forces—had become endemic by the late 1970's. Since formula wage patterning and employee disengagement were more extreme in unionized businesses, these two trends produce greater "reversals" in a union setting. Also, both trends contravene union strategy and ideology, and, at times, have carried an anti-union coloration. Nevertheless, pressures for change affected nonunion just as much as union businesses, broadening the shift in wage and employee-involvement practices to encompass more than just a few extreme union-bargaining turnabouts.

Changes in Wage Trends

Wage inflation is incompatible with an oversupply of labor. So, the theory goes, a recession with rising unemployment will reduce wage increases. Conversely, recovery and tightening labor markets will quickly raise wages. In other words, wages are elastic and respond to labor-market conditions.

During the 1970's, wage increases, especially union-bargained ones, appeared to be increasingly inflexible and unresponsive to cyclical swings in the economy. Union-negotiated wages had become "patterned" to a great extent. Large bargaining units typically had three-year agreements that spanned the business cycle. Their wage terms included, in most cases, automatic increases linked to price inflation (cost-of-living, or COLA, clauses). In addition, the usual contract had an initial increase, a second-year increase, and a third-year increase. Moreover, as benefits in major contracts were specified in real terms (e.g., so many days of hospitalization), they were automatically escalated by the price of health-care services.

It can be said that such wage conventions and formulas put compensation levels beyond the control of the bargainers. Certainly these wage conventions produced rigidity—unresponsiveness to business and cyclical conditions. When the resulting wage "bargains" were adopted in a ripple pattern by other sectors of major industries, and by related industries, their effect was magnified. During the 1970's, especially, the wage leadership of such major bargains also affected wage setting even in nonunion firms.

The increasing rigidity of wages during the 1970's suggested that higher and higher unemployment levels would be required, in order to reduce wage inflation. In fact, there was *higher* unemployment and *greater* wage inflation during the recession years 1970, 1974, and 1980. Wages were being influenced by pressure to catch up with price inflation; they were not stalled by an oversupply of labor. Economists described the unemployment-inflation trade-off as worsening, and laid the fault to wage inertia and thoughtless wage imitation by employers.

The recession of mid-1981 through 1982 produced two-digit unemployment rates, the highest since the 1930's. Wages responded: Increases in the average hourly earnings index for production and nonsupervisory workers dropped from 8.2 percent in 1981 to 6 percent in 1982. First-year increases negotiated in major collective bargaining settlements fell from 10.1 percent in 1981 to 3.8 percent in 1982. The phrase "concession bargaining" began to appear in the media, although union representatives fought against use of the term. As the recession came to an end, and employment began to increase sharply in early 1983, analysts began to be concerned that wage increases would rebound; and that union bargains, especially, would return to former heights. To put the issue starkly: Sharp wage inflation was expected to develop with the recovery of 1983, *unless* wage-setting institutions and practices changed in some major way.

Controversy developed over whether or not such a fundamental change had taken place. At a Conference Board Human Resources Conference in April, 1981—before the

1981 Looks to 1984

On November 4, 1981, The Conference Board's annual Labor Outlook Panel attempted to discern the reshaping of bargaining that some argued was occurring. There was no consensus on the nature of change, its causes, or its persistence. However, the panel *did* agree that by 1984, the extent of change would be apparent:

> "Not very long ago, the headline power of auto bargaining was enough to make it 'the beginning of the three-year cycle of heavy negotiations.' There were those who disagreed: No, steel negotiations were the fountainhead. And then, with the tailoring of President Carter's voluntary controls to fit around the framework of the Teamster settlement, the trucking negotiations became a pattern-maker of sorts.
>
> The power of each of these three leading bargains is gone. As each industry—autos, steel and trucking—meets with a new competitive situation, it is reshaped by new sets of market forces that once were alien. This is particularly true of wage bargaining. Consequently, it is necessary to examine the effects of unavoidable market pressures on pattern bargaining. Three themes emerge in this examination. Greatly oversimplified, they are:
>
> (1) The trucking, auto and steel bargains will be very "moderate," setting an example for other union negotiations.
>
> (2) Their leading role will be forfeited, but picked up by defense aerospace.
>
> (3) The whole idea of wage leadership, modeling and patterning will disappear as *fragmentation occurs—to the individual company and plant level.*
>
> During the panel discussion on 1982 bargaining, it seemed that—although everyone agreed that a major change is taking place—the only way to analyze the change will be to look back upon it three years hence."[1]

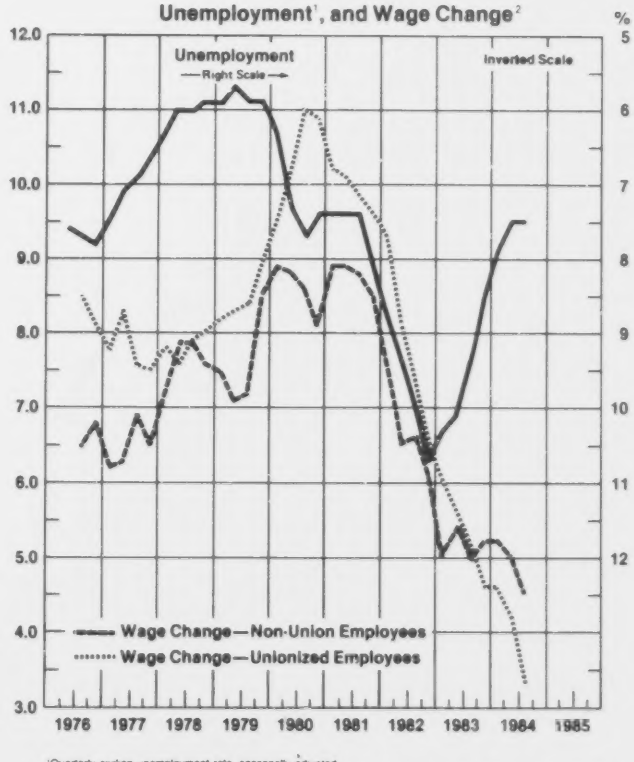
[1]Audrey Freedman, et al, *Labor Outlook*, 1982, The Conference Board, 1981, Research Bulletin -108, p. 12.

1981-1982 recession developed—the theory was advanced that increasing pressure for efficiency and cost-cutting among companies facing domestic and international competition would force them to abandon pattern bargaining, wage "formulas," and wage imitation. Several labor economists disagreed, predicting that wage imitation and inflation would return with economic recovery. The controversy grew throughout 1982. But concession bargains continued to spread and pattern bargaining did, in fact, begin to fragment.[1] (See box.)

Wage inflation has not returned after a drop in the unemployment rate of 3½ percent. (See Chart 1.) It is, therefore, appropriate to investigate the reports of corporate

Chart 1

Unemployment[1], and Wage Change[2]



[1]Quarterly civilian unemployment rate, seasonally adjusted.
[2]Rates of Wage and Salary Change in the Employment Cost Index, for Union and Non Unionized Employees, for 12 months ending in the quarter indicated.

[1]The controversy gave rise to a considerable literature. The initial 1981 presentation was published as "Last Rites for Pattern Bargaining" by Audrey Freedman and William E. Fulmer, in *Harvard Business Review*, March-April, 1982, pp. 30 ff. The controversy is described in Audrey Freedman, "A Fundamental Change in Wage Bargaining," *Challenge*, July-August, 1982, pp. 14-17, and in the *Wall Street Journal*, September 30, 1981, p. 1; *Daily Labor Report*, February 17, 1982, p. A-2 and February 23, 1982, p. D-1, D-2; *Business Week* April 19, 1982, p. 123, 126; *Fortune*, September 20, 1982 pp. 98-99. Two more recent analyses of the proposal are found in Richard Belous, *Wage Restraints in the 1980's: A Turning Point in U.S. Labor Markets*? Congressional Research Service, U.S. Library of Congress, February 24, 1984; and Wayne Vroman, "The Wage Deceleration of 1982-83" in *Challenge* May-June 1984.

Table 1: Ranking of Influences on Management of Employee Relations
(based on responses from 499 companies)

	Number of companies ranking item first in importance[a]	*Average ranking*[b]
Domestic competition	164	2.9
Recession	109	3.2
Changing industry structure	82	3.5
Government regulation	51	4.1
Demographic changes in the work force	31	4.7
Union pressure	30	4.9
Foreign competition	29	5.8
Industry or market deregulation	9	6.6

[a]Total is 505; one or more companies offered two or more first rankings.

[b]Lowest number is most powerful influence.

decision makers about influences affecting their management of human resources, to see whether institutional factors may be at work. The question is whether or not the recession, a transitory phenomenon, is the main pressure or influence on management. If so, as recovery proceeds a "back-to-normal" trend might develop. If other noncyclical factors are affecting management, they will continue to exert pressure and prevent reversion.

Pressures on Management

Pressure from competitors was cited in The Conference Board's 1983 survey as the most powerful influence on management. Specifically, domestic competition is the strongest goad for efficiency and cost-cutting among the 164 companies that ranked it first among pressures; foreign competition was felt most sharply by 29 companies (Table 1). A rubber manufacturing company explained its situation this way: "Domestic and foreign competition requires cost-containment decisions in managing employee relations. The company has been forced to take lengthy strikes to gain required concessions to moderate labor costs."

Among the other long-term influences, changing industry structure—itself a response to market pressure—and deregulation are related to competition. A railroad vice president observed: "Deregulation has intensified competition, and thus our need to control (decrease) costs." A heavy equipment manufacturer linked three factors on the list: "*Competition* is the primary factor in our industry's changing structure, and just as with the recession, it is causing economic pressures."

Recession, the second most frequently cited influence, is temporary. But it combined with intensified competition to influence corporate policies. A glass company linked the two: "...perhaps the recession is shorter term, but it has significantly contributed to a very strong domestic competitive development." Another company focused solely on the broader shift of resources out of its industry: "Recession (in the oilfield equipment industry) has necessitated severe changes in employee staffing as well as in our benefits and compensation program."

A general recession following the 1980 recession may have cracked the inertia of many employee-relations and wage-setting conventions. Some companies were prodded to change their standardized thinking for the first time in decades. Said one steel executive: "The current business situation has created the need to do things in the labor-contract area that we have never attempted previously: concessions, freezes, forego scheduled increases, close plants, and the like."

A labor economist, for example, described the recession's effort in inflation outcomes: "The experience of 1980-83 shows that a very prolonged recession can sharply limit wage inflation. At the same time, there was clearly a high cost to society in terms of increased unemployment and losses in real output. The 1982 and 1983 unemployment rates are by far the highest for thirty-one years."[2]

The Union Factor

Some of the items in Table 1 represent opposing pressures. Thus, unions push management to increase wages and to provide security; competition pushes management to cut wages and increase productivity; recession forces companies to cut production and work forces if not pay. Chapter 2 describes how bargaining has changed under these competitive pressures. From these bargaining

[2]Vroman, 1984, p. 36.

Exhibit 1: Survival Bargaining Outline, National Foundry Association

I. What Conditions Provide a Suitable Environment for "SURVIVAL" Bargaining?
   A. Profitability Factors
   B. General Economic Factors
      1) Unemployment rate in the area
      2) Lack of demand for product or excess inventory
      3) Competitive disadvantage with imports and productivity factors
      4) Competitive disadvantage with other company locations
      5) Consideration of shutting down or moving
   C. Strategic Considerations
      1) Mid-term versus end-of-contract bargaining
      2) General economic condition of industry and competitors' bargaining situations

II. Mechanics of SURVIVAL Bargaining
   A. Planning for SURVIVAL Bargaining
      1) Internal audit of company's economic condition
         (a) Can profitability be achieved solely through labor-union concessions?
         (b) Are additional investment in capital, promotion or new-product development needed?
         (c) How much savings must be realized in labor costs to turn around the company's economic condition? Is such a savings realistic as a goal?
         (d) Does it make more economic sense to shut down plant and/or relocate than to bargain for concessions?
      2) Collective bargaining analysis: Where can economies be achieved in current agreement?
         (a) Wages
            (1) Deferred increases—set time deferral versus increases triggered by specified events (i.e., achievement of defined profitability level)
            (2) Wage freezes
            (3) Foregoing increases
            (4) Rollbacks in wages
            —Differentials and shift preferences
         (b) Cost-of-living allowances and adjustments
            (1) Readjustments of formulas
            (2) Caps and corridors
            (3) Deferral of adjustments
            (4) Removal of base-roll-in features
            (5) Removal of COLA
         (c) Productivity and incentive revisions
            (1) Revisions of standards
            (2) Conversions to new systems
            (3) Elimination of "average earnings" and other restrictive clauses
         (d) Benefits
            (1) Holidays, vacations, paid leave
            (2) Benefit plans—funding mechanisms
               (i) Convert from defined benefit to defined contribution plan
               (ii) Reassess funding assumptions
               (iii) Dissolve plan; roll over employee shares into IRAs

outcomes, one can sense the relative weakness of union pressure and the reported strength of the three topmost "opposing" influences.

The labor market of the early 1980's, crowded with job-seekers, was highly competitive. This contributed to downward pressure on wages—and on wage bargains. Industries newly exposed to competition from lower-cost producers could not expect to cover labor-cost increases with price increases; this made them seek concessions. Employers were helped in this drive for cost savings by 10 to 11 million unemployed job seekers. The possibility of operating through a strike with a newly recruited work force was also tested. Success made the tactic more appealing to other employers—and made strikes less attractive as a union sanction. (See Exhibit 1 for a "survival bargaining outline" taking account of these circumstances.)

Throughout the 1970's, union presence had been diminishing, though this fact did not become clear for all to appreciate until the "competitive 1980's." (See box.) The growth of a nonunion steel industry, the mini-mills, and a nonunion commercial construction industry began in the last decade, but has been felt strongly only in this one. Recently, nonunion auto manufacturing, nonunion interstate trucking, and a nonunion airline industry have begun to influence the unionized sectors of those industries.

Bargaining power has been greatly altered as a result of the growth of nonunion competition inside the United States, and competition in the form of low-cost, high-quality imports from abroad. Management's power to administer prices has faded. With this decline in the market power of their employers, unions' ability to affect wage levels within industries has declined.

(e) Overtime practices
(f) Subcontracting and automation rights

B. Strategies and Tactics
1) Communicating with the union
(a) How much do you tell?
(b) Timing
(c) Format
2) Communicating directly with employees
(a) How much do you tell?
(b) Timing
(c) Format
(d) Legal restrictions
3) Involvement of public officials
4) Preserving good relationships with the union
(a) Evaluating internal union political situation
(b) History of union relationship—How far can they be pushed?—How far can they concede?
5) The strike option
(a) Economics of strike operations
(b) Relative advantages: strike versus voluntary shutdown with lay-offs

C. Union Information Requests
1) Extent of legal disclosure requirements
2) Formats for compliance—tailoring response narrowly to demand
3) Involvement of neutrals (accountants, public officials) in process of verifying company claims

D. Bargaining to impasse
1) When can you implement proposals unilaterally?
2) What are the limits, if any, with respect to what can be implemented unilaterally at impasse
3) Which subjects are mandatory?
(a) Decision to close
(b) Decision to relocate
(c) Decision to lay off
(d) "Effects" or "impact" bargaining
4) Participation of neutrals—Federal or state

E. Impact of other Federal statutes
1) EEOC-affirmative action requirements
(a) Modifications to seniority systems to avoid negative work force impact of lay-offs
2) Federal Contracts—OFCCP—special requirements
3) Age act considerations in buy-out and lay-off programs—limitations on mandatory retirement and early-retirement programs
4) ERISA—special requirements on modifications of established benefit programs—funding requirements—tax consequences

III. Special problems in multi-employer units
A. Withdrawal from multi-employer units
B. Feasibility of survival. Bargaining on a multi-employer basis: special industrywide situations

IV. Anticipation of union strategies
A. Recoupment of concessions in the future under specified conditions
B. Profit sharing or other regeneration plans
C. "Neutrality" agreements
D. Cooperation committees
E. Outsourcing and insourcing commitments
F. Investment commitments
G. Equality of sacrifice
H. Job security commitments

Unionism Fades

"Union power in the private economy has sagged to 1936-37 levels, 17.7 percent of employment, or less than one half of its historic high of 36 percent. Currently, private sector membership is down 3 million from its 1970 high of 17 million. These private sector developments were obscured by the explosion in government unionism, which only turned down after peaking in 1976."

From Leo Troy and Neil Sheflin, *Union Sourcebook: Membership, Structure, Finance, Directory*. West Orange, New Jersey: Industrial Relations Data and Information Services, 1984, p. 1.

Management Attitudes Toward Unions

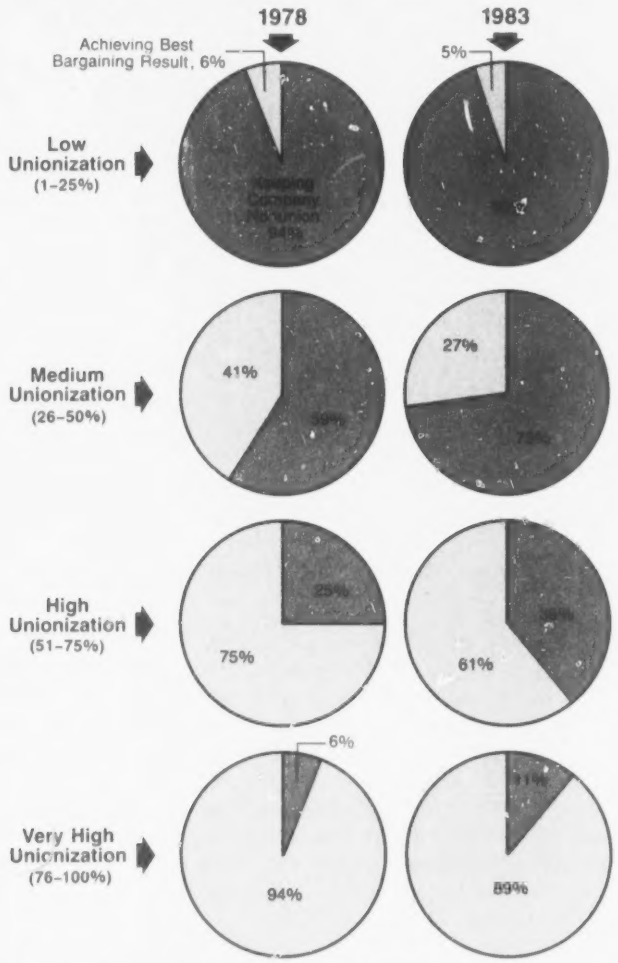
Under strong competitive prodding to increase efficiency and cut costs, management might have been expected to develop a more negative attitude. Companies were more likely to emphasize an objective of keeping as much of the company nonunion as possible in 1983 than had been true even in 1978. (See Chart 2.)

In both years, the less-unionized companies emphasized staying that way. Highly unionized companies put their main emphasis on achieving a good bargain. Even here, however, there was growth in the small proportion that gave priority to forestalling unionism (from 6 to 11 percent).

In the middle ground between those highly and thinly unionized, there is a decided shift in company priorities.

Chart 2

Primary Objective of Companies, by Extent of Unionization in 1978 and 1983*



*Forced choice question: Which is more important?
Keeping as much of the company as possible nonunion.
Achieving the most favorable bargain possible.

These companies are more inclined now to emphasize union avoidance and, possibly, to achieve union decertification as well. Within this "middle ground" there were some shifts in extent of unionization—accompanied by a shift in priorities. Fifty-five companies that emphasized bargaining in 1978 had switched to union avoidance by 1983. Their average unionization in 1978 was 58 percent; by 1983, it was 51 percent. Eighteen companies switched from union avoidance to a bargaining-outcome emphasis; but their average unionization had increased from 51 to 58 percent. Thus, much of the change in company attitude toward unions can be linked to the declining (or increasing) presence of unions among the work force. As more companies shift into a less-than-half unionized situation, their priorities will shift toward maintaining a nonunion work force wherever possible.

Company comments cover a full range of corporate attitudes toward unions. One highly unionized company suggested that recent events had caused it to streamline operations, and: "Union pressure has had the least effect in the past two years since they have been very cooperative." The tone is one of pleasant surprise; there is an implication that adversarial relations had prevailed before 1981.

An entirely nonunion electronics company observed: "No *direct* union pressure motivates us, but we are aware that unions are around and [we] manage to make them unnecessary." For some companies, avoiding unionization guides a great deal of the human-resource strategy. As one reported: "We strive to stay nonunion at all costs."

Union Bargaining During Recovery

During the first year-and-three-quarters of recovery, union bargains remained moderate. The tabulation below shows first-year wage adjustments in contracts covering 1,000 or more workers, in the period indicated.

	1983	January to September, 1984
Thousands of workers affected	3,013	1,447
Percent of workers affected who received:		
wage increases	63	73
wage freezes	22	21
wage decreases	15	6
Mean wage adjustment overall	2.6%	2.5%
Mean wage increase	5.8%	4.0%
Mean wage decrease	-6.7%	-9.0%

Source: U.S. Bureau of Labor Statistics.

Chapter 2
Changes in Wage Setting

THE PRESSURES OF competition and of two very severe recessions since 1980 have caused management to turn inward for its signals in negotiations. A change from 1978 is evident in the same bargaining units: Management is less influenced by developments external to the company, more influenced by its own business situation. It is able to look somewhat more carefully at the local labor markets in which it is operating, and is much less concerned with industry "patterns."

In 1978 and again in 1983, companies were asked how they determined their own wage and benefit objectives before bargaining with the union. In 1978, their consideration of primary importance was "industry patterns." In 1983, it is "productivity or labor-cost trends in this company." (See Chart 3.) There has been a 64-percent increase in the number of companies giving primary emphasis to labor costs in the company, or expected company profits, or to local wage rates. Table 2 presents the factors in the order of the greatest change. The comments of respondents explain a change in emphasis:

"Competitive environment is the most critical factor—domestic and worldwide."

—electrical products

"Foreign labor cost and total cost competitive advantage was more important than domestic trends."

—transportation equipment

"The most important consideration was foreign competition and our ability to remain competitive."

—machinery

"This is a labor-intensive industry. Productivity and labor cost are big items affecting expected profits."

—retail foods

"Taken into account and of prime importance was the overall condition of both domestic and foreign markets, the forecast for the industry for the next five years, and competitiveness within the industry."

—transportation equipment

Along with the rise in importance of internal factors, there has been a decline in importance accorded to *external developments*. There has been, for example, a big drop in concern with (external) industry patterns. Other external factors also declined in importance: inflation rates, the effect of this settlement on other wage settlements and/or non-union wages, and union settlements in other industries. The only internal factor that declined in importance was "potential losses from a strike."

One rubber company respondent observed: "Potential losses from a strike are always an important consideration, but we felt that the likelihood of strike in 1982 was minimal for a variety of reasons." Another noted about a casting plant: "Currently 75 percent of this group is on lay-off. Business has been depressed for 18 months with not much improvement forecast for the next 12 months. The union has been realistic about conditions."

Summing up, one food-processing executive described the change from 1978: "Bargaining in 1983 is more individualized. Historical, local and national industry patterns were rejected. The union had difficulty accepting this demand."

Close comparison of influences on wage setting mentioned by companies five years ago and now confirms the prediction of 1981 that: "Managers will look to company costs, competitor costs, and the local labor market once again, as the framework for wage setting...The institutional relationship between unions and managements in tightly organized industries may endure—but the way they set wages will change."[1]

Structure of the Bargain

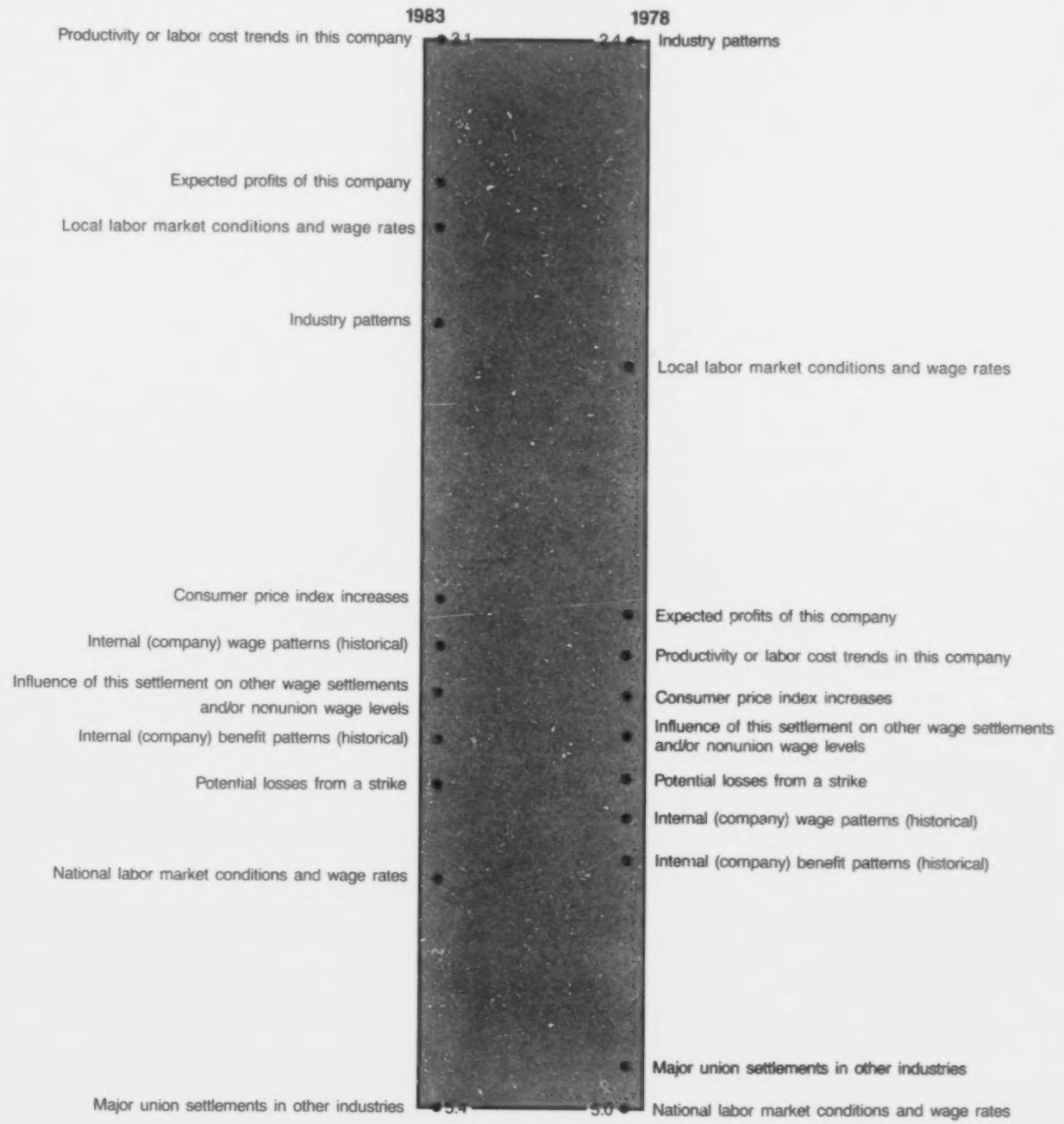
One of the institutional aspects of the union-management relationship is the scope of the bargaining unit and of the contract. Contracts covering individual plants were the mode in 1978, and also in 1983. The relative influence of various wage considerations was distinctly different in 1978, when plant-by-plant bargainers were compared to broad, multiplant, "master contract" units.[2] The companies with master contracts gave very great im-

[1]Audrey Freedman and William E. Fulmer, "Last Rites for Pattern Bargaining," *Harvard Business Review*, March-April, 1982, p. 31.

[2]Audrey Freedman, *Managing Labor Relations* The Conference Board, Report No. 765, 1979, pp. 38-39.

Chart 3

Relative Importance of Factors Used in Setting Company Wage Objectives


1983
1978
Productivity or labor cost trends in this company
2.1
2.4
Industry patterns
Expected profits of this company
Local labor market conditions and wage rates
Industry patterns
Local labor market conditions and wage rates
Consumer price index increases
Expected profits of this company
Internal (company) wage patterns (historical)
Productivity or labor cost trends in this company
Influence of this settlement on other wage settlements and/or nonunion wage levels
Consumer price index increases
Internal (company) benefit patterns (historical)
Influence of this settlement on other wage settlements and/or nonunion wage levels
Potential losses from a strike
Potential losses from a strike
Internal (company) wage patterns (historical)
National labor market conditions and wage rates
Internal (company) benefit patterns (historical)
Major union settlements in other industries
Major union settlements in other industries
5.4
5.0
National labor market conditions and wage rates

Note:

All companies answering the question, with the same bargaining unit for both years (N = 197)

Rankings weighted as follows:

If company ranked factor 1–3, it was weighted accordingly; if item was checked "not a consideration" it was weighted 8; if neither ranked 1–3 nor checked "not a consideration," item was weighted 4.

Table 2: Most Important Influences on Wage and Benefit Targets, 1983 and 1978[a]

Factor	Number of companies	
	1983	1978
Industry patterns		
ranked first	39	81
second—third	47	59
not considered	31	7
Local labor-market conditions and wage rates		
ranked first	41	56
second—third	54	51
not considered	26	21
Expected profits of this company		
ranked first	37	25
second—third	48	33
not considered	18	26
Productivity or labor-cost trends in this company		
ranked first	37	8
second—third	68	49
not considered	11	19
Potential losses from a strike		
ranked first	6	7
second—third	23	43
not considered	49	31
Influence of this settlement on other wage settlements and/or nonunion wage levels		
ranked first	5	12
second—third	37	51
not considered	41	33
Consumer Price Index increases		
ranked first	7	6
second—third	40	45
not considered	37	23
Internal (company) wage patterns (historical)		
ranked first	14	8
second—third	28	28
not considered	41	32
Internal (company) benefit patterns (historical)		
ranked first	2	2
second—third	26	29
not considered	39	29
Major union settlements in other industries		
ranked first	6	7
second—third	13	34
not considered	78	64
National labor-market conditions and wage rates		
ranked first	12	4
second—third	16	35
not considered	59	64

[a]For 197 companies responding, in both years, for the same bargaining unit.

Table 2a: Most Important Influences on Wage and Benefit Targets, by Industry

Factor	Manufacturing	Utilities	Transportation and Communication	Trade
	100%	100%[a]	100%[a]	100%
Industry patterns	18	25	26	4
Productivity or labor-cost trends in this company	20	14	30	24
Expected profits of this company	18	11	17	28
Local labor-market conditions and wage rates	20	17	9	12
Internal (company) wage patterns (historical)	7	11	–	4
Influence of this settlement on other wage settlements and/or nonunion wage levels	2	6	–	8
Consumer Price Index increases	2	8	4	4
Potential losses from a strike	4	–	4	8
Major union settlements in other industries	3	3	4	–
National labor-market conditions and wage rates	6	6	4	–
Internal (company) benefit patterns (historical)	–	–	–	8

[a]Details do not add to 100 percent because of rounding.

portance to industry patterns, scarcely considering local labor markets and wage rates. The plant-by-plant negotiations *were* influenced by local wages—and nearly as much by industry patterns.

By 1983, both had changed. Now, the preeminent wage influence for both kinds of structure is labor cost—a factor of little importance, especially to bargainers for individual plants, five years before. After labor costs, the multiplant-contract companies continue to look to industry patterns, and they are concerned with expected profits. The individual-plant bargainers give second concern—after productivity and labor costs—to local wage levels. (See Table 3.)

Wage Influences and Wage Outcomes

There was a significant relationship between wage outcomes in bargaining and only two of the wage influences shown in Table 3. Companies that emphasize productivity and labor cost trends, or profitability, have lower negotiated wage settlements in their largest bargaining unit (analysis of variance used).

Influence:	*Average Annual Wage and Benefit Increase in Largest Bargaining Unit*
Productivity or labor cost	
ranked first	4.6%
ranked 4 or lower	5.8%
Expected profits	
ranked first	4.0%
ranked 4 or lower	5.9%

None of the other wage-setting influences were systematically related to bargaining outcomes.

Concession Bargaining

The unexpected severity of the 1981-82 recession, and the unexpected increase in competition, made some existing bargains inappropriate for the times. In some cases, a wage level reached when the industry was sheltered from the market by regulation, was out of line under open market conditions. In some cases, automatic escalation of wages had driven costs to a point where non-union firms were capturing market shares even in the midst of general recession. In other cases, a firm that had followed the path of wage imitation in the 1970's decided that union power to resist a wage readjustment had waned, and the time was ripe for change.

Collective bargaining has always implied tradeoffs and "concessions." Final agreements from such bargaining, however, have rarely contained reductions in wages. When they have included reductions in union or contract control over work rules or practices, there are usually corresponding or tradeoff compensations for the work rule "surrendered." For this reason, it is difficult to develop a clearcut definition of "concession bargaining" so that the obvious shift of the past three years can be quantified. Professor Daniel J.B. Mitchell of the University of California has adopted the definition "negotiations in which the basic wage is either frozen or reduced for the first year of the contract."[3] The Bureau of National Affairs, which tabulated concession bargains for 1982-1983, defined them as "negotiated contract(s) in which a union has agreed to wage or benefit givebacks."[4]

[3]Daniel J.B. Mitchell, "Labor Relations Over the Past Five Years: Implications for the Future," (mimeo) paper prepared for the Institute of Industrial Relations, June 12-14, 1984, available from Prof. Mitchell at the University of California at Los Angeles p. 2.

[4]BNA has added to the definition "often in exchange for in-

Table 3: Rank of Influences on Wage and Benefit Targets, by Bargaining Structure[a]

Factor	*Companies that Bargain Plant-by Plant* [b]	*Companies that have a Master Contract Covering Multiple Plants* [b]
Productivity or labor-cost trends in this company	3.1	2.8
Local labor-market conditions and wage rates	3.3	4.0
Expected profits of this company	3.4	3.2
Industry patterns	3.6	3.1
Internal (company) wage patterns (historical)	4.2	4.2
Consumer Price Index increases	4.3	4.1
Influence of this settlement on other wage settlements and/or nonunion wage levels	4.3	4.6
Internal (company) benefit patterns (historical)	4.4	4.4
Potential losses from a strike	4.5	5.0
National labor-market conditions and wage rates	4.6	4.7
Major union settlements in other industries	5.1	4.7

[a]Lowest value is most important factor; average rankings derived as in Chart 3.

[b]Structure of "all or most" bargaining situations.

When a company requests that a long-term contract in force be opened to change its terms *before* expiration, a major shift is taking place. In a letter, Robert Juenger, Director of Industrial Relations at FMC, described mid-term negotiations this way: "Mid-term cost reduction is the only true definition of 'concession bargaining'; that is, giving up something you already have when you don't have to do so. Getting work-rule changes or wage-benefit freezes or reductions at contract time is just hard bargaining."[5]

The stress on interruption is echoed by Professor Peter Capelli of the University of Illinois: "Stability and incremental adjustments clearly do not typify the negotiations associated with concession bargaining. The dominant characteristic of these cases has been change—rapid, unprecedented change in the process of negotiations, in the contents of settlements, and in the employment consequences associated with them. Contracts are being reopened before their expiration dates, normally by management but sometimes by union initiative."[6]

Early contract openings—and concessions—were reported in one-third of the largest bargaining units among the unionized companies in The Conference Board's survey. At these early openings, the subject of discussion was cost cutting. Most companies proposed changes in work rules, and also wage "freezes." A high proportion also proposed reductions in fringe benefits. Nearly a third asked for two-tier wage scales (lowered wage rates for newly hired employees); wage reductions for existing work forces; reduced paid time off; deferrals or delays in effective adjustments under cost-of-living clauses. (See Table 4.) This table also shows the diversity of cost-reduction proposals, and the fact that many companies requested several concessions.

"Changed work rules," sought by 57 percent of these companies, is a generic term covering many varieties of work practices that became embedded in the contract and could not be changed unilaterally by the company. In contracts with a multiplicity of job classifications and restrictions on assignments within those classifications, management might want to combine many classifications into just one or two broad job titles. Management might propose an alteration in the power of seniority in assignments and scheduling, or a change in layoff and recall rights. The general category "work rules" comprises myriad restrictions on management flexibility that raise operating costs—in direct contrast to the situation of nonunion competitors. Consequently, more management proposals were made on work rules than on any other contract topic.

Company proposals were frequently successful—especially those proposals that cut costs somewhat less directly than outright wage adjustments. Lowering "new hire" rates, reducing paid time off, and changing work rules were successful proposals in three out of four cases or more. Deferral of COLA was accepted by the union nearly as often.

Union requests, made in response to the management proposal to amend an existing contract, focused on employment security, according to the respondents. General job-security provisions, management promises to keep a facility in operation, and restrictions on subcon-

creased employment security or, more recently, stock ownership." *Employee Relations Weekly*, February 27, 1984, Volume II Number 8, p. 245.

[5]Letter to the author, June 17, 1983.

[6]Peter Cappelli, "Concession Bargaining and the National Economy," *Proceedings of the Thirty-Fifth Annual Meeting of the Industrial Relations Research Association*, December 28-30, 1982, p. 363.

Table 4: Management Requests for Changes in Union Contract Before Expiration Date
(largest bargaining unit in 133 companies reporting early openings)

Proposed Change	*Number of Companies Proposing Change*[a]	*Percent of All Early Openings*	*Proportion of Proposed Changes Accomplished*
			(% of col. 1)
Defer ("freeze") or delay scheduled wage increases	68	51	60
Reduce wages	38	29	66
Established lower wage rates for new hires	40	30	80
Reduce fringe benefits	53	40	66
Reduce paid time off	38	29	79
Change work rules	76	57	76
Cost-of-living adjustment (COLA)			
Defer or delay effective adjustment	39	29	72
Eliminate entire clause	23	17	48
Modify formula	17	13	65
Divert COLA	15	11	93

[a]Multiple responses.

tracting out of the bargaining unit were most often sought. (See Table 5.) As Professor Peter Cappelli observes, "An interesting question concerns the characteristics of the improvements that unions are getting in return for labor-cost concessions. The range of potential improvements is constrained by economic pressures that are outside the firm; improvements in current wages, benefits, and work rules, for example, would all raise current labor costs, thereby reducing employment security for union members, leaving them worse off and defeating the purpose of negotiating the concessions in the first place."[7]

Comparison of Tables 4 and 5 suggests that, in general, the unions did not ask for very much, and they got even less. In the 133 early openings, unions got some form of job-security enhancement in 27 cases, and a promise to keep a facility operating in 13 cases. There were a dozen situations in which the union was given a larger role in management decision-making. Although there is a potential for thoroughgoing "revolution" in union-management roles, it is clearly a small set of individualized situations rather than a major trend. These are, in any case, individual and private bargains, rather than participation rules imposed by government, as in Germany.

Concession bargaining, brought about by adversity, generated some new levels of information sharing. Over a hundred companies said that concession negotiations were preceded by a marked increase in communication about the company's costs, competitive situation, and business plans.[8] Many described progressing from a *union* communication effort (or demand) to an *individual employee* communication strategy and emphasis.

"Increased communications with union and employees. This is crucial to the process if union and employees are expected to accept need for change."

—rubber

"Described to the union how we must become more competitive."

—instruments

"The primary concern of all parties is loss of competitive position to nonunion companies."

—construction

"We started a state-of-the-company meeting with the UAW. This kind of meeting has been held annually in last two years."

—auto

"Profit and loss statement reviewed by union auditors."

—metals

"On request to the international union to open negotiations prior to the normal expiration date, we gave the reason why—which included profit and loss picture, market condition."

—transportation equipment

[7]Peter Cappelli, "What Do Unions Get in Return for Concessions?" *Monthly Labor Review*, May, 1984, pp. 40-41.

[8]For an analysis of the purposes and process of information-sharing, see David Lewin, *Opening the Books: Corporate Information-Sharing With Employees*, Research Bulletin No. 167, The Conference Board, 1984.

Table 5: Union Requests in Negotiations Following Management Proposal to Open Contract Before Expiration Date (largest bargaining unit in 133 companies reporting early openings)

Proposed Change	*Number of Union Proposals*[a]	*Percent of All Early Openings*	*Proportion Achieved by Union*
			(% of col. 1)
Job security arrangements	54	41	50
Promise to keep the plant open	32	24	41
Limits on subcontracting	29	22	24
Profit sharing or some other gain-sharing arrangement	20	15	55
Union participation in management decision making	12	9	100
Neutrality or automatic recognition of the union in new plants	11	8	27

[a]Multiple responses.

"American flag cost of operation versus foreign flag cost was discussed with the unions."

—shipping

"Employees were repeatedly informed of low profit margins (or losses) of the company and the plight of the industry."

—food products

"Information was shared on effects of increased business, and specifically related to an opportunity for a long-term contract with a major customer."

—machinery

"We provided employees with a complete explanation of the company's financial health."

—utility

"Slide presentations informed employees of business conditions."

—conglomerate

"Hopefully, local management appreciates the need to keep employees informed of the constantly changing competitive market."

—wholesaling

"We communicated our competitive situation and change in product mix in the market, and described foreign competition."

—food products

"We caused *employees* to ask their union reps to consider the management concession requests."

—food retailing

Nonwage Objectives in Bargaining

When they bargain with their unions, companies have nonwage objectives in addition to wage goals. Expecting a union initiative in a particular area (for example, liberalized pensions), management may develop a *status quo* position on pensions—and also develop a counteroffer to (for example) increase life insurance. Management might also want elimination of a subcontracting restriction or of a work rule. In exchange, it might "give" on some aspect of layoff procedures. It is possible that *within* a subject area (for example, health insurance), a company may want to get something (such as deductibles), hold the status quo on another aspect (such as dental coverage), and be willing to trade—give—on a third element (such as outpatient coverage).

The frequency with which respondents mentioned nonwage objectives suggests relative "heat" in a subject area. In Table 6, a dozen nonwage areas (listed on the survey questionnaire) are shown with the "hottest" subject area at the top. The first two items (health insurance and paid time off) are the most expensive benefit areas for employers in general, and they are provided by nearly every employer. In contrast, subcontracting may simply not be an issue at all in industries such as retailing. The extent of union restraints on "management rights" to deploy the work force efficiently (flexibility in assignment) is apparently widespread, and not confined to "old-line" craft industries. Sixty-eight percent of companies had an objective in this area. In this, more than in any other area,

Table 6: Nonwage Objectives of Companies
(369 companies)

Subject Area	Proportion of companies mentioning	Company Objective: Tighten existing provision or get a more favorable one	Keep the status quo	Willing to use a specific item in trade for another item	Rate of achieving company objective
Health insurance	81%	46%	27%	8%	79%
Time off with pay (vacation, holidays, etc.)	76	26	45	5	84
Flexibility in assignment of employees	68	47	19	2	80
Pension	67	11	37	19	86
Group life insurance	61	10	32	19	82
Dental insurance	59	12	37	10	84
Cost-of-living clause	57	29	26	2	85
Subcontracting	53	14	39	*	86
Length of agreement	53	16	33	4	90
Layoff and recall procedures	50	20	26	4	83
Union security arrangements	37	5	31	1	81
Income security (SUB, severance, etc.)	35	3	28	4	88

*Less than 1 percent

companies reported plans to "get back" some management powers (47 percent of all respondents).

Health benefits is the subject on which the greatest number of companies had an objective, and that goal usually involved getting something. The rapid rise in health-care costs and insurance premiums has put pressure on companies to shift some of the costs to employees. (See box.) Although this area was the least successful one in a generally successful company record of achieving objectives, it was achieved by almost four in five. (See last column of Table 6.)

Shift Since 1978 on Nonwage Items

There has been an extensive shift in the five-year period toward management demands for "givebacks" in the nonwage and fringe area. Comparing the distribution of company objectives over all respondents in each survey makes this point:

	1978	1983
Company objective:		
get	18%	34%
keep status quo	61	55
give	21	11

This suggests that wages are not the sole focus of stringency in current bargaining—nor the sole source of cost savings.

A more precise focus on policy shifts within companies can be obtained by comparing the responses of the same companies with the same bargaining units in 1978 and 1983. The two biggest switches are on health benefits and on time off with pay. In the earlier study, corporate objectives included a great deal of give in the area of benefits such as health and life insurance, pensions and time off with pay. By 1983, companies wanted some of those benefits back. Chart 4 shows that 60 percent of the companies planned to gain on some aspect of health benefits, perhaps by introducing copayments. Time off with pay is the other area of reversal: 37 percent were willing to liberalize in 1978; in 1983, 30 percent wanted to reduce paid time off.

Management wanted to strengthen its freedom to deploy the work force efficiently in the earlier study—and it is even

Shifting Health-Care Costs

"The fact that health-care expenditures have now reached an alarming 10.9 percent of gross national product has already started a struggle over who should bear the burden. Most of the action . . . appears to be cost shifting from employers to employees."

—Earl C. Royse, Vice President, Human Resources, Saga Corporation, in *Labor Outlook, 1984* The Conference Board, p. 12.

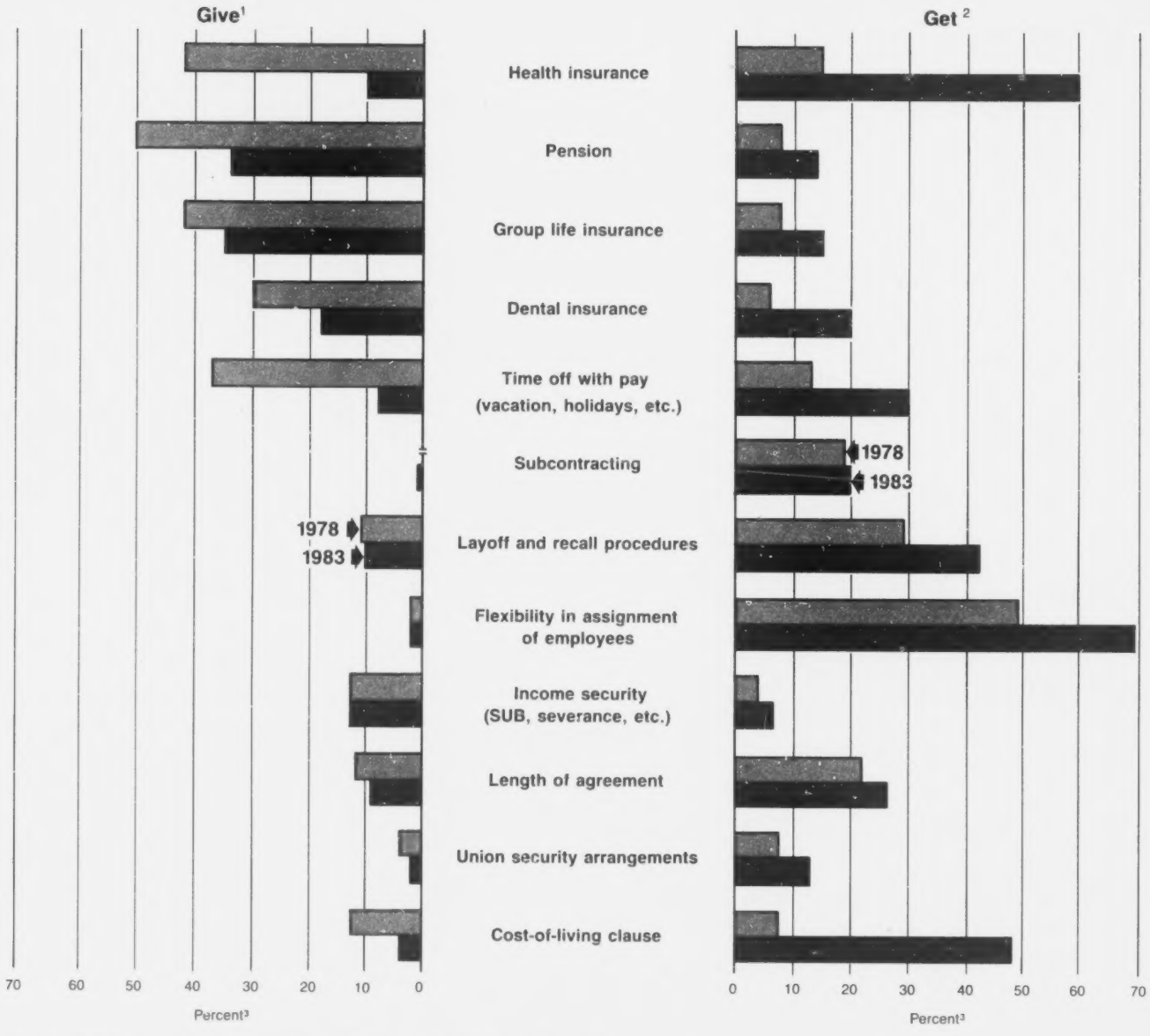
A U.S. Bureau of Labor Statistics survey in 1983 found that:

"Almost all of the workers covered by the survey were provided health insurance. Sixty-five percent had health plans totally financed by their employers; this was a 6-percentage-point *decline* from 1982. Forty-three percent also received noncontributory coverage for their dependents, compared with 51 percent when first tabulated in 1980."

—U.S. Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1983* Bulletin 2213, August 1984.

Chart 4

Shift in Management's Non-wage Objectives between 1978 and 1983



[1]Proportion of companies that were willing to use a specific item in trade for another item.

[2]Proportion of companies that wanted to tighten existing provision or get a more favorable one.

[3]100% = all companies with the same bargaining unit for both years, with an objective in the subject area in 1978 and in 1983. (e.g. Health benefits, 130 companies; subcontracting, 86 companies.)

more intent upon that objective now, as the chart shows. Similarly, the goals of revising and making layoff and recall procedures more favorable to management were fairly prominent in 1978 and are more so now.

One subject that received very little attention, either way, in 1978, has become important because of its close connection with the wage part of the bargaining: cost-of-living clauses. These cover only 57.6 percent of workers in major bargaining units[9]; nearly half of the companies in our matched group planned to limit, freeze or eliminate the clauses they had.

[9]William M. Davis, "Collective Bargaining in 1983: a Crowded Agenda," *Monthly Labor Review*, January, 1983, p. 11.

Chapter 3
Nonunion Employee Relations Practices

MANAGEMENT EFFORTS to involve employees in the enterprise have broadened in recent years as large and hierarchical corporations try to restore the sense of working in a small business. Decisions to institute involvement policies or programs may be motivated by expected increases in productivity from a more committed or self-monitoring work force. In some cases, worker commitment to the enterprise is expected to dissuade union organizers. However, corporations in which numerous employee-involvement systems are being tried are less likely to have a labor-relations-dominated style of management. Their style is human-resource-development-dominated. (Chapter 5 discusses these differences.)

Employee-involvement measures are just beginning in many companies. Numerous respondents volunteered that they had "recently" initiated one or another of the measures discussed in this chapter. Others said that efforts were spreading gradually from one division to another, but the program was still "too new" for quantification of its effect. A reading of all 243 respondents' comments suggests that such corporate efforts are recent; they are very effective; and there are few drawbacks.

Information-Sharing Practices

Over 85 percent of the companies in this study have a system for giving nonunion employees information about the competitive conditions or economic circumstances of the company or business division in which they work. This was the most frequently cited of a dozen participative or "innovative" work practices listed on the questionnaire.[1]

Managements report satisfaction with the outcomes of new information-sharing efforts. Their statements are in general terms: None refers to a "measured" improvement, although a few expect to measure morale changes over time. Generalized statements about productivity effects were frequent. Some examples:

"The more employees understand, the more productive they have become."

—diversified manufacturing

"There is no question but that this kind of communication improves productivity."

—instruments

Some offered an explanation of their information-sharing policy. For example:

"We even communicate all our salaries. It is essential that *all* employees become 'students' of the business so they can make rational decisions. We try to have as few secrets as possible. This is a positive influence on morale and builds credibility."

—plumbing supply manufacturing

"There are no surprises for our nonunion people—that's good public relations. There is a greater feeling of security in our nonunion plants because they are forewarned and know the company will do what it can to protect them—that's good."

—transportation equipment

One company cautioned about the type of information offered, and the mode of communicating it:

"The average production worker does not have access to the full scope of the broad interrelationships among various company entities and activities. Receiving isolated numbers or summaries of such economic or business conditions does little to foster understanding on their part."

—farm equipment

Another company suggested that "crash" or "crisis" efforts are a mistake:

"We feel employees are better able to increase productivity and profitability if they are knowledgeable about what is happening internally as well as externally in the market place. This must be done on a continuous feedback basis."

—paper manufacturing

A more finely spun kind of information sharing is practiced by slightly over half of the companies: giving employees (or having them track) statistics on *their own working group's productivity or quality performance.* Performance feedback gives the employee an immediate gauge of the effect of his or her work efforts. There is much more

[1]Information-sharing strategies are covered in David Lewin, 1984.

immediacy to this information than to data on divisional or corporate performance. One is "how is my company doing?"; the other is "how am I doing my job?"

Companies that emphasize union avoidance, and are less unionized, are somewhat more likely to have these feedback systems among nonunion employees. (See Table 7.) Possibly, companies share information—particularly group-performance data—so that management will be regarded as open, and as "the sole source" for full information. Some of the respondents commented:

"Employee involvement increases morale as well as productivity—limits the possibility of unionization."

—food retailing

"Information provided on economic conditions has been of critical importance in keeping main plant nonunion in face of organizing efforts."

—light manufacturing

"Appears to be more important to nonunionized salaried employees."

—hydraulic equipment manufacturing

"Communications are one of the keys to avoiding unionization. It builds a feeling of belonging."

—petroleum

"The nonunion employees show a definite and positive response to the information supplied to them, whereas the union groups have a disbelief and a lack of interest in company type information."

—utility

"Information sharing encourages employees to remain union-free. For union groups, it produces more understanding of why work is not available."

—tobacco company

An interpretation that places great emphasis on union avoidance is found on pages 18-19.

Another—and perhaps more powerful—incentive for introducing feedback is that it increases productivity. When employees can get feedback on their performance, their productivity increases average about 16 percent, according to an analysis by Dr. Richard E. Kopelman of Baruch College.[2] Most of the "product" being measured in the case studies that he re-analysed was a service (e.g., in banking, hospitals, a shipping department). He found that feedback information has an even more profound effect upon "work behavior," such as percentage of customers approached by salespeople. Some respondents to the present research were more specific in their references to productivity outcomes from performance feedback information than to the general idea of "information sharing." For example:

[2]Richard E. Kopelman, "Improving Productivity through Objective Feedback: a Review of the Evidence," *National Productivity Review*, Winter 1982-83. Sixteen percent was the median figure derived by using data only from studies based on comprehensive performance measurement.

Table 7: Company Practices Among Nonunion Employees

	Number of Companies in which:	
Company Initiative	*Managers Are Encouraged To Develop or Sustain*	*Practice Exists*
Information-related:		
Employees are given information about competitive or economic conditions of plant or business		431
Employees track their group's quality or productivity performance		264*
Participation-related:		
Employee-participation programs (quality circles, quality-of-work-life programs)	364*	
Autonomous work teams	107*	
Employees meet in small work groups to discuss production or quality		340*
Compensation-related:		
Profit-sharing, gains-sharing, or bonus programs for non-exempt employees	191	
Employees receive productivity or other gains-sharing bonuses		121
"Payment for knowledge" compensation systems	107	
All-salaried compensation systems	173	
Miscellaneous:		
Formal complaint or grievance system	378*	
Work sharing instead of layoffs	176*	
Flex-time or other flexible work schedules	162	

*Statistically significant relationship with a company preference for union avoidance, at .05 or better.

"Feedback develops meaningful *and measurable* cost reductions and improves employee morale through involvement. The costs incurred in implementation and the length of time required to achieve a payback are negatives."

—mobile home builder

Dr. Kopelman has suggested some reasons why performance feedback may be instituted before, or instead of, creating quality circles:

"There are six distinct advantages of a feedback intervention. First, a feedback system often can be based on data already being generated. Hence, feedback is unobtrusive, requiring little change in ongoing procedures.

Another Interpretation of Conference Board Data

The Conference Board has made data from this survey available to several universities and research institutions, preserving the confidentiality of individual responses. Professor Thomas A. Kochan and John Chalykoff of the Sloan School of Management at the Massachusetts Institute of Technology analyzed four innovations, including two information-sharing items, with the following result and interpretation:

"What leads some firms to be more innovative at the workplace than others? What are the driving and constraining forces in bringing about change in the organization of work and the involvement of employees in workplace problem solving? To address these questions we compared the number of innovations respondents reported were under way in their union and nonunion plants.

"The innovative practices included in our index of innovativeness included: (1) the sharing of economic information with employees; (2) meeting in small groups to solve problems—that is, quality-circle type processes; (3) gain sharing; and (4) giving employees feedback on the productivity or quality performance of their work groups.

"What we found is highly consistent with what has been learned from studies of organizational innovation in other contexts. For example, the most innovative companies were the ones experiencing the most competitive pressures from either domestic or international sources. That is, innovation is not a natural event in labor relations or human-resource management. It takes a shock or severe pressure on the existing "system," or way of doing things, to stimulate a motivation to change.

"And, also consistent with theories of organizational strategy and structure, the innovations did not come from the professional labor-relations or the professional human-resource management staff. Instead, the most innovative companies were the ones where line management had the most control over labor and human-resource management decisions. In order to initiate a significant shift in the strategies used to manage the work

"Second, and related to the first advantage, a feedback intervention is relatively simple to implement and requires little investment in time or money.

"Third, the use of feedback is a natural means of [self] control.

"Fourth, the effects of objective feedback are evident rapidly. Indeed, positive results are often achieved within twenty-four hours. In contrast, job redesign and participation interventions typically take 1½ to 3 years to take hold.

"Fifth, objective feedback can be implemented in virtually all work settings, including those where there are few alternative ways to improve productivity.

"Sixth, the use of feedback generally enhances the effects of other productivity improvement techniques."[3]

Employee Participation Groups

Two-thirds of the companies surveyed have some parts of their nonunion work force meeting in "small work groups that discuss production or quality problems." A somewhat larger number, over 72 percent of all companies, encourage their managers to develop quality circles or quality-of-work groups among nonunion workers. However, only a fifth of the companies encouraged managers to set up "autonomous work team" operations.[4]

All three of these participative team strategies were more likely to be found in the companies with less—or no—unionization. They were somewhat more frequent in companies that emphasized limiting unionization of the work force. However, none of the respondents linked teamwork or quality circles with union avoidance in the comments.

Team or quality-circle work groups were associated with information sharing in several comments:

"To the extent that employees are informed, they are more able to exercise self-control. A trust cycle is established. Furthermore, information sharing and participation in decision making tends to enhance both productivity and the quality of the decision."

—transportation equipment

"Quality circles and posted production information relating to specific jobs, such as weavers, have produced innovations and motivation leading to better and more efficient performance."

—textiles

One comment carried an ambivalent note:

"Feedback on performance increases demand for monetary rewards (associated with higher production). Also, with higher internal employee motivation, supervisor's role changes to resource allocator, roadblock remover."

—food retailing

[3]Kopelman, p. 48

[4]For an analytic description of participation techniques, with cases and exhibits, see Harriet Gorlin and Lawrence Schein, *Innovations in Managing Human Resources* The Conference Board, Report No. 849, 1984.

force and to organize work, companies depend on the initiative of line managers, not on staff professionals who were responsible for administering the existing systems.

"What roles do unionization and employer strategies toward future unionization play in the propensity to innovate at the workplace? The answer here is more complicated and depends on two things: (1) whether the plant is unionized, and (2) the priority the firm places on avoiding unions in future operations. That is, there is a *negative* correlation between the degree of overall company unionization and the amount of innovation occurring in the nonunion plants. On the other hand, there is a *positive* correlation between the degree of unionization in the overall company and the amount of innovation achieved in its union plants.

"The explanation for this rather complex finding appears to lie in the priority companies assign to union avoidance. Other analyses reported above (Chapter 1, this report) noted that the priority assigned to union avoidance decreases as the percentage of the company's current work force already unionized increases. Thus, *one interpretation of our results is that companies with smaller percentages of their plants or work forces unionized concentrate on managing their nonunion plants in an innovative way so as to minimize the risk of further union growth.*. These companies apparently are less likely either to attempt, or to achieve, innovation in their unionized plants. On the other hand, those companies that are already highly unionized are more likely to attempt and to achieve innovations in their organized plants. Highly unionized companies have a greater stake in changing their unionized labor-relations practices. Moreover, the unions in their plants may be more willing to cooperate and experiment with management because there is less fear that management calls for cooperation and innovation are just another attempt to undermine unionization.

"In summary, innovation in workplace labor relations appears to be a pressure-driven rather than a naturally or continuously evolving phenomenon; requires the active intervention of line management into what is traditionally viewed as a staff responsibility; and can happen in either union or nonunion plants. Placing a high priority on union-avoidance objectives, however, appears to stifle innovative efforts in union plants."

Several comments referred to the upward and downward communication that may be associated with employee participation teams:

"Not only do hourly workers take advantage of production discussions to enhance improvements in the workplace, top management gains insights into the efforts and loyalties of those employees. The whole process has developed an even stronger bond between managers and production workers."

—food processing

Compensation-Related Measures

Compensation strategies, as a group, were least frequently employed (Table 7). Over a third of the companies encouraged managers of nonunion groups to develop profit-sharing, "gain-sharing" or bonus programs for nonexempt employees. A quarter of the companies have productivity bonuses (or other gain sharing) in effect.

Linking pay to output by means of individual or group production incentives is the most powerful of all productivity-enhancing strategies. However, it requires that managers be able to define and measure output. Profit sharing, on the other hand, requires only general formulas—though it retains an attenuated, largely symbolic, relationship to overall company productivity.

Because of the difficulty of identifying output when the product is intangible, production incentives are more likely to be found in manufacturing, where they can be based on physical output measures, than in other industries. In a manufacturing company with a strong incentive philosophy, however, a contrast may appear between production workers on clear-cut incentive systems and "the rest of the company" in the conventional system of pay for time. Such a problem is addressed in Exhibit 2 (page 21). The solution for this company was to put all nonproduction employees on an incentive that is based on their division's profits relative to the expenses directly controlled by that division.

Profit sharing offers a way to make pay more flexible and responsive to company performance. However, it does not function as a direct incentive to stimulate individual or group effort. For an example of profit sharing with quarterly payouts, see Exhibit 3, Part A (page 22).

The two other compensation measures covered in our survey—all-salaried work forces and "pay-for-knowledge" systems—are distinctly different from production incentives. In an all-salaried firm, there will not be an "hourly" group; the payroll is less variable. (The implication of "hourly" employment is that when labor is not needed it is not paid for.) All employees are employed on a weekly, biweekly or monthly basis.[5] There are implications of more

[5]Because of regulations under the Fair Labor Standards Act of 1938, employees who are not exempt from coverage (by executive, administrative, outside sales, or professional status) would be paid additional wages, on an "hourly" basis, for hours worked beyond 40 in a week.

Nonunion Employees' Grievance Systems

Three-quarters of all companies encourage their managers of nonunion groups to develop and sustain formal complaint or grievance systems. This is more frequent in the less-unionized companies that emphasize union avoidance. A 1980 Conference Board study (Ronald Berenheim, *Nonunion Complaint Systems, A Corporate Appraisal*) concluded that "employee complaint systems are a significant element in union prevention strategy." The conviction, on the part of a chief executive or founder, that employee equity is an important corporate value, might also foster a grievance system.

The 1983 data suggest that formal complaint systems are widespread. More so, in fact, than five years before, when only 47 percent of respondents had nonunion grievance systems. However, actual usage of these systems may be quite low except for a few outstanding examples.

security and more flexibility in function and assignment. What is clearly *not* implied is compensation that is constantly shifting because it constantly fluxes with output. The contrast with gain sharing is clear-cut.

Pay-for-knowledge systems are often linked with autonomous work teams. Group members typically do a broad variety of "jobs" or tasks in fabrication or assembly-and-test teams. Flexibility is an important ingredient in team efficiency. In order to institutionalize cross-training, managers may create a single wage scale for a production line, with employees who can do "all" functions at the top rate—no matter what they are doing in any one hour. Employees who have only mastered one or a few functions—and who are, therefore, less usefully mobile—would be at the low end of the scale.

Work Sharing Instead of Layoffs

When production or service requirements fall, it is the usual management practice to lay off the unneeded production workers, and keep a shrunken work force on a full workweek basis of 35 to 40 hours. Techniques for avoiding some layoffs by "sharing" the lessened workload among employees are encouraged by a third of the respondents. This practice is somewhat more frequent among companies with a preference for union avoidance. It is likely that a work-sharing response to business downturns prevents union organizers from making an issue of employment instability. Unexpected and frequent layoffs could make employees receptive to union appeals. The union might promise that it could make layoffs more predictable, for the individual, by making them operate by seniority only. Work-sharing procedures, in place in advance, offer job security in lieu of seniority-based layoff sequence.[6]

Because union contracts typically include layoff-governing rules, it is far less likely that work sharing would even be feasible in a union setting. (Some contracts do contain work-sharing clauses, but they are rare.) For this reason, also, a management trying to provide some employment security is more likely to make its move among nonunion work forces. The necessary flexibility for sharing is found in a nonunion setting where management can reassign and reschedule employees unilaterally. An example of a thorough-going work-sharing plan is given in Part B of Exhibit 3 (pages 22-24).

Flexible Work Schedules

Flexible hours of work, encouraged by one-third of the companies, are likely to be arranged for office workers and in service-providing industries. Such scheduling flexibility is seldom found in manufacturing. It is also rare among workers covered by union contracts.

[6]See Audrey Freedman, *Security Bargains Reconsidered*, The Conference Board, Report No. 736, 1978, pp. 1-2.

Exhibit 2: Pay System of Nucor Corporation

Our employee relations philosophy has four primary components:

- Management's first and foremost obligation to employees is to provide them the opportunity to earn according to their productivity.
- We are obligated to manage our company in such a way that employees can feel that if they are doing their job properly they will have a job tomorrow.
- Employees must believe that they are being treated fairly.
- Employees have an avenue of appeal if they believe they are being treated unfairly.

We believe that money is the best motivator.

We have four incentive compensation programs at Nucor. The production incentive program is certainly the most important of the four. All of our incentive systems are designed around groups, not individuals These systems are for production employees, department heads, secretaries, accounting clerks, accountants, engineers and senior officers alike.

- In our *production incentive programs*, we try to keep the group in the range of 25 to 30 people. The operation of the group must be clearly definable and measurable. We believe that the program should be simple so that it is readily understood and bonuses should be paid promptly so that employees directly relate their added effort and productivity to increased compensation.

Approximately 3,000 Nucor people work under production incentive programs. In our joist manufacturing operation, approximately 30 people are involved in each bonus group. It is a complete joist production line. They are responsible for all the operations in the manufacture of joists from steel angles and rounds.

When the system was established, the bonuses were based on roughly 90 percent of the historical time it takes to make a particular joist. For instance, if during a week employees make joists at 60 percent less time than the standard time, they receive a 60 percent bonus. The bonuses are given with their regular pay the very next week. We simply take the complete paycheck, including overtime, and multiply it by the bonus factor. Each shift and each production line is a separate bonus group.

For each of the steel mills there are nine bonus groups: three in melting and casting, where the bonus is based on good billet tons per hour for the week; three in rolling, where the bonus is based on good sheared tons produced; and three in straightening, where the bonus is based on good straightened tons produced. Again, the bonuses are paid together with employees' regular pay the next week.

To a certain extent we take the approach that each bonus group is in business for itself. We supply the building, the equipment, the know-how and the supervision. But what they earn depends directly upon how much they produce. We do not pay a bonus when equipment is not operating. Our philosophy is that when equipment is not operating, everybody suffers and the bonus for down time is zero.

Maintenance personnel are assigned to each shift in the joist plants and steel mills. They participate in the bonus along with the other bonus groups. The supervisors are also part of the group and receive the same bonus as the employees they supervise.

Our rules for absenteeism are simple. We have four grace days per year. In addition, days off are approved in the event of military leave or jury duty. Anyone who misses a day loses his or her bonus for the week. Additionally, if someone is more than a half-hour late, that individual loses his or her bonus for the day. Needless to say we do not have a problem with tardiness or absenteeism.

- The production incentive program is only part of our incentive system. At the department head level the company has an *incentive compensation* program based on the contribution of the particular division in which the department manager works, or the corporation as a whole. Division contribution is defined as the profit the division earns before corporate expenses, profit sharing, taxes and interest expense. Division contribution represents the profits of the division relative to the expenses they directly control.

This bonus is based on return on assets, since in a capital-intensive industry such as ours that is one of the best measurements of management productivity. In an operating division, these bonuses can run as high as 51 percent of an individual's base salary on top of his or her base salary. In the corporate office it can run as high as 30 percent of base salary.

- The *third incentive plan* at Nucor applies to employees who are not in a production function and who are not at the department manager level. This can be an accountant, an engineer, a secretary, an accounting clerk, receptionist or any one of a broad number of different employee classifications. This bonus is also based on either the division return on assets or the corporation return on assets.
- Every month each division receives a report showing on a year-to-year basis its return on assets. This chart is posted in the employee cafeteria or break area together with the chart showing the bonus payout. The chart keeps employees apprised of their expected bonus levels throughout the year.

In 1979 Nucor Corporation established a plan, the result of which has been to make virtually all employees owners of Nucor Corporation.

After five years of service an employee receives five shares of Nucor stock. After another five years of service they receive another five shares, and so on. In this way most of our employees have become owners of Nucor Corporation.

Source: John A. Savage, "Growth and Success through Employee Involvement," CUE Study #20, National Association of Manufacturers, 1982.

Exhibit 3: Practices at a Machinery Company's Southern Plant

Part A: Profit Sharing Plan

The purpose of this policy is to define the corporation's profit sharing plan for which plant employees are eligible.

Practice

A. The profit sharing plan design is based on the principle that employees should share in profits they help earn. This reinforces the need for all employees to work closely together to serve customers well.

B. The plan will be administered as follows:

1. All employees who were actively on the payroll during all or part of the quarter will be eligible. This includes those employees on salary continuance. Prorated payouts will be made to those employees who were voluntarily or involuntarily terminated, those who went on personal leave, those who transferred, those who retired, and those who died. (In the case of death, payouts will be made to "the estate of.")
2. Lump-sum payments for vacation, severance, contractually paid disability (long-term disability and workers' compensation), retroactive pay earned outside the quarter, and weekly paid severance will not be included. Other payments such as jury duty, military duty, etc., will be paid.
3. Exempt and nonexempt employees who were not eligible for bonus awards previous to January 1, 1984 will have a base bonus opportunity of 3 percent of quarterly base pay.
4. The profit-sharing factor will be based on return on sales. Return on sales is calculated by dividing profit after tax by net sales, using publicly reported financial results. A table of profit-sharing factors is attached to this policy.
5. Payouts will be on a quarterly basis as long as the return on sales is 1.0 percent or greater. Distribution will usually be four to six weeks after the close of the quarter and possibly later for year-end close.
6. The calculation of an individual's quarterly payout is illustrated below:

Base salary Paid in Quarter	$6,000	
Multiplied by 3%	x 3.0	
Bonus Opportunity	$ 180	
Multiplied by profit-sharing factor	x 2.0	
(2.0 for 5% return on Sales)	$ 360	(gross)

Responsibility

A. The corporation will maintain all financial data and calculate the ROS (return on sales).

B. After having closed the quarter and determined the ROS, the corporation will notify the Plant's personnel organization of the profit-sharing factor.

C. Personnel will provide Finance and Systems with the guidelines for administration to include the quarter's profit-sharing factor.

Part B: Employment Stability and Work Reduction (Nonexempt)

The company will work toward providing long-term employment to its employees. This emphasis on employment stability is built on the premise that to be successful, the plant must attract and retain a large majority of its employees as a skilled and motivated work force. The employee who is unduly concerned about his or her job security cannot give full attention to the job and perform at maximum effectiveness. The purpose of this practice is to place employment stability and work reduction in their proper perspective.

Practice

A. The plant will strive to maintain an acceptable level of employment stability during its daily operations. Some specific examples of practices we use to optimize employment stability are:

- Develop flexibility in the work force through job design.
- Avoid overstaffing.
- Use temporary rather than permanent employees, where appropriate.
- Use overtime in lieu of hiring additional employees for the short term.
- Use a balanced product "mix" to guard against shifts in product demand.
- Contract out some of the requirements such as security and janitorial services to enhance job design.
- Plan finished-goods inventories and stocks at levels consistent with customers' needs and to utilize as a counter-cyclical tool.
- Build as much planning and lead time as possible into production schedules.

- Continue to develop and introduce new and improved production methods in order to operate the plant successfully so that opportunities for employment can be maximized.
- Do as much available work as in-house skills will permit.
- Maintain available training provisions to absorb excess personnel profitably in the short term.
- Develop a "flex" team to deal with people and production needs during periods of manufacturing changes, that is, varying production requirements from one month to the next.

B. Flex Team System

- Each month production levels will be set for the following month.
- Production and support managers will decide which areas give up or receive people to meet efficiency and production goals.
- In areas giving up people, teams decide who will be lost for the one month period. Any logical process can be used as long as single critical skills are not given up.
- After one month on the flex team, the team member returns to the home team unless he or she wants to remain on the flex team, which must be agreed to by the home team. If the team member returns to the home team, the team sends a new member to the flex team. Everyone has a turn by whatever process the team decides.
- In situations where areas are permanently overstaffed, managers may either have teams rotate until a member permanently bids for a new position, or they may recommend that a team member be permanently assigned to the flex team. Recommendations for permanent assignment to the flex team must be submitted to and be approved by the operating team.
- Team members and areas who are flexing will be given priority consideration on all job openings over areas that are not flexing.

C. Work Reduction

In the event that business conditions require a reduction in the work force, an attempt will be made to be fair and equitable to all employees within the constraints of the plant's production requirements. The following steps may be taken to compensate, where possible, for the work reduction.

- Eliminating overtime where possible.
- Building inventories and increasing stock levels within approved guidelines.
- Bringing contract work, such as security and janitorial services, in-house.
- Asking employees to take their unused vacation.
- Implementing a work week of fewer hours with accompanying salary reduction (shared work reduction).

(1) An example would be the reduction of the standard 40-hour week to a 35-hour week. Hourly rates would remain the same.
(2) Overtime, if any, will be paid at established rates and approved in accordance with current policy.
(3) Meetings such as team meetings, affirmative action task group, quality meetings, and so on, will continue as they are necessary to the operation of the plant.
(4) Benefits will remain in effect. The annual savings plan will be based on the September 1 rate of pay; the qualified savings plan is based on the gross weekly salary and would be reduced accordingly with salary; and life insurance would remain the same (there is *no* reduction clause in the life-insurance plan).

- If further reduction in hours necessitates a reduction in employment, layoffs will be utilized.
- If the required work reduction mandates a layoff, the following actions will be taken:

(1) Inform all plant employees of the situation.
(2) Allow employees to elect voluntary layoff.
(3) Establish head-count reduction goals for nonexempt personnel. Exempt reduction goals will be established by Corporate. The Operating Team will establish the nonexempt goals based on anticipated production requirements. Skills trainer-trainee personnel deemed noncritical to the plant's operation will be returned to factory level for consideration based on length of service.
(4) Employees will be laid off in accordance with their service date with the the Plant (lowest service employees will be laid off first) except where skills of an employee are necessary to sustain the Plant's operation. Deviation from the service date method of layoff must be approved by the Plant Manager.
(5) Employees designated for layoff will be notified at least five days in advance.
(6) Should two or more employees designated for layoff have the same service date, the employee(s) with the highest clock number will be laid off first. For employees who have been reemployed by the Plant, the adjusted service date will prevail.
(7) Reassign remaining active employees until target head count in teams, departments, and functions is achieved.
(8) For those employees on layoff:
    - Receive medical, dental and life-insurance coverage to the end of the month following the month the layoff became effective. Long-term disability and salary continuance would cease

on the effective date of the layoff, to be resumed if and when rehire occurs. Employees whose benefits expire may convert their policies at their option. The Personnel Division will have representatives available at designated times to this end.

- Employees on salary continuance will continue to be paid by the company until they are released by their physician to return to work, or become eligible for long-term disability benefits. Their salaries are adjusted to the rate equivalent to the current Unemployment Compensation rate. Health-insurance coverage will continue in effect for the specific health condition until the employee is released by his or her physician.

D. Duration of Layoff Status

- Twenty-four (24) months is the maximum time that an employee may remain in a layoff status. After the expiration of 24 months, the employee is terminated.
- Employees on layoff status will accrue service credit toward retirement only.

E. Recall at the end of the Work Reduction

- As positions become available, employees on the recall list are notified to return to work in reverse order of their layoff, that is, employees with most service return first.

(1) It is the responsibility of the employee to notify the company of any changes of address within three working days of that change.
(2) Employees will be notified of recall by telephone and certified letter to the address of record.
(3) Employees recalled must report within five working days of receipt of the recall letter. Any extension must be covered under current absence policies.
(4) Consideration will be given to reassigning employees to former teams where feasible.

F. Normalization

- When recall activities are complete, the company's needs and the Employee Review and Development System and Individual Preference will be used to fill in-plant vacancies.

Part C: Wage-Setting in the Plant

Practice

A. A Subcommittee of the Operating Team, consisting of a cross section of the plant nonexempt and designated exempt resources, headed by the Personnel Division Manager, exists to review nonexempt compensation semiannually.

B. These reviews assess the competitiveness of the company in the community from which it draws its labor force and trends in benefits within and outside of the corporation.

C. Salary will be reviewed twice annually (December-January and June-July) with any approved change effective February 1 and August 1, respectively.

D. Benefit changes will be reviewed annually, simultaneously with the December-January salary review, and any approved changes will take place at the appropriate time.

E. Monthly meetings will continue throughout the year, as necessary, to consider benefit or other compensation matters.

F. The Operating Team will rule on affordability.

Procedure

A. **Data Gathering**

Designated members of the Personnel Division will be assigned to assist the Compensation Review Committee in gathering data on community wages and benefits.

B. **Compensation Review Committee**

1. The Compensation Review Committee will consist of one person for each full increment of 100 employees but not less than one per office or factory.
2. The Operating Team will receive from the Personnel Division a recommendation for membership of the Committee, taking into account demographic, organizational and task considerations in January each year. The divisions designated to fill an open position will seek nominations within their division and recommend to the Operating Team for approval.
3. One-half of the Committee will rotate each year, with terms running for two years from February 1 to January 31.
4. The Compensation Review Committee is responsible for developing a proposal to the Operating Team from the input gathered, as well as the

result of its own deliberations, not later than January 1 and July 1 each year.

5. The Compensation Review Committee may, at any time during the year, make its recommendations known to the Operating Team upon the completion of deliberations concerning a major benefit change.
6. The Compensation Review Committee will be headed by the Personnel Division Manager and other exempt resources as needed.
7. Proposals made to the Operating Team should be on the basis of consensus rather than by just a majority.

C. **Operating Team**

1. Provide the CRC with the names of community organizations to be used when reviewing the competitiveness of the plant's wage scale, plus considerations the Operating Team will use when making its recommendations to headquarters.
2. The Operating Team will review proposals of the Compensation Review Committee and communicate their essence to the plant. The Operating Team will then conduct its own deliberations, and develop a proposal for submission to corporate management not later than the end of the second week of the second month in the review period (January or July).
3. The Plant Manager will designate individuals to make the presentation to corporate representatives and request approval during the third week of January or July each year.
4. Upon receipt of corporate approval, the plan will be reviewed with the Operating Team and the Compensation Review Committee. A process for disseminating to the total work force will be developed and implemented at that time. Generally, salary changes will be effective on February 1 and August 1; benefit changes upon appropriate dates.

Chapter 4
Management's Relationships with Unionized Employees

MANAGEMENT'S RELATIONS WITH individual employees are filtered through the management-union relationship in union-organized workplaces. The competitive pressures described in Chapter 1 have strained this institutional relationship—producing both "concessions" in negotiations and "cooperation" in management of the work force. This chapter deals with adaptive cooperation by the union, and with management innovations in individual employee relations in the unionized shop.

Employee-Participation Activities

Unionized employees are given information about the competitive or economic conditions of the plant or business in four-fifths of the companies with unions. Much of this information sharing is a recent development, often begun at a time when management was seeking union concessions.[1]

One respondent from the heavy construction industry said his company had started having regular quarterly meetings on business plans and problems. A rubber company began "substantial communications (using corporate and division executives) with employees and union committees on business trends and competitive costs." Managements indicated that, governed by labor law, they communicated with union representatives—none "went around" the union to address employees. However, communications addressed solely to the union were mentioned only a few times. The purpose of information sharing has been to inform employees about business conditions.

Companies that share business-performance data report a *significantly* higher level of motivation and morale in the major bargaining unit. The one-fifth of companies not sharing business information with their unionized workers report poorer motivation. Information-sharing companies also report a better ability to work cooperatively with the union. On the strength of this relationship, we might conclude that employees respond with involvement and enthusiasm when management shares business data with them. However, another interpretation of the relationship is possible. That is, management in a unionized plant may be more inclined to openness when employee attitudes and morale are *already* positive. A third possibility is that both "results" are correct in this sense: Management is more willing to undertake opening the flow of business information to unionized groups where morale and attitude are positive, and the communication program further improves those attitudes.

A different kind of information is available to employees who can track, or are given data on, *their work group's* productivity or quality performance. This feedback is available to their unionized employees in 52 percent of the responding unionized companies.[2] Although these companies do not report a higher level of overall morale, they do record two positive results squarely in the area of productivity. Where employees monitor their own group's output, there is a *significantly higher level of productivity* in the bargaining unit. Furthermore, there is also *significantly better receptivity to new technology.*[3]

Quality-circle discussion groups occur in 56 percent of unionized companies. In their evaluations, they report that such groups "encourage employees to become more interested and involved." Many commented that the quality-circle groups are new, or only operating as experiments in a few places. Some added that it is not possible to measure their success.

"Care must be used to avoid the impression of using these to 'get around' the union," cautioned one respondent. The point is a serious one, for if the union objects to employee committees or quality groups, it might force dissolution of the programs. "All the available evidence indicates that if a case arose in which a union challenged an employees' committee operating outside union control, there is a high probability that the [National Labor Relations] Board and the courts would rule that the committee is violating the union's exclusivity; and the employer, in dealing with that committee, is violating Section 8 (a) (5) of the NLRA."[4]

[1]For a full discussion of this strategy, see David Lewin, 1984.

[2]In 31 of the companies where union employees track their group's output and productivity, nonunion employees do not have the same opportunity for self-monitoring.

[3]There is a relatively strong relationship ($r = .3970$, significant at the .001 level) between rating of productivity and receptivity to new technology.

[4]Donna Sockell, "The Legality of Employee-Participation Programs in Unionized Firms," *Industrial and Labor Relations Review*, vol. 37, #4, July, 1984, p. 559.

Table 8: Climate Measures for the Largest Bargaining Unit

Measure	Percentage of companies that rated factor "Good" or "Very Good" 1983	1978	"Poor" or "Very Poor" 1983	1978
Ability to work cooperatively with the union during the agreement	76	67	6	3
Avoidance of legalistic maneuvering	72	72	5	6
Ability to achieve management goals in bargaining	71	56	5	5
Ability to adjust to changes in technology	69	62	4	6
Performance of the grievance procedure in this relationship	63	66	8	8
Productivity of workers covered under this agreement	54	40	6	8
Management's ability to take a strike	51	48	20	19
The attitudes of the employees (motivation, morale) in this bargaining unit	50	48	7	5

Employee collaboration in quality circles and other work groups can be a means to reduce conflict in unionized plants. Cooperative relations with the union can flow from the small work-group cooperation on the plant floor, so long as the union does not feel threatened in its role as employee representative. This would be especially true at the shop-steward "working" level. However, companies with small work-group collaboration did *not* report any greater ability to work cooperatively with the union. Nor did they report higher morale, productivity or receptivity to new technology. Either the work-group program was too new, as many companies observed, to have a beneficial effect on union relations or on employee motivation—or a quality-circle program does not have outcomes of this nature.

Productivity or "gain-sharing" bonuses were paid to union workers in a fifth (78) of the unionized firms. Gain-sharing practices did *not* produce a higher level of productivity (or morale) reported for the largest bargaining unit. More careful examination seems warranted, however, before concluding that there are no productivity incentives in gain-sharing bonuses. They were reported for only a small proportion of unionized companies. They may have been introduced in bargaining units other than the largest, because start-up and administration would be likely to be more complicated in the biggest facility (which was the one covered by our "climate" question). In sum, the effect of gain sharing on both union and nonunion workers remains to be studied.

Receptivity of Unions

Unions are not opposed to the practices discussed above. Only twenty-three companies answering this question reported union opposition. However, over half the respondents said that unions remain uninvolved. There is active union participation in about 42 percent of the cases. This is highest among the few companies with gain-sharing bonuses. Where the practice affects a paycheck, the union becomes an active party. Otherwise, according to these companies, there is a balance slightly favoring the aloof (or, perhaps, "wait and see") stance.

Employee and Labor Relations Climate

The general climate in unionized companies' largest bargaining units has improved in the past five years. Climate measures were favorable, overall, in 1978; they are more so today. (See Table 8.) In a period when union power has been declining, there appears to be rising management satisfaction about the "softer" aspects of the union-management relationship, in the area where this relationship is most entrenched—the major bargaining unit. Elsewhere in the company, organizing may be faltering and decertification may even occur, but these measures of union weakness are not appreciably affecting relationships within the biggest bargaining unit.

In 1978, the Board asked companies which of the items on Table 8 they were "currently, actively trying to improve." Most of them (63 percent) chose productivity as the area for greatest activity. The greatest *improvement* over the last five years is reported on this item. We have noted above that feedback of production and quality data to employees positively affects productivity; this technique may have been introduced in recent years specifically for that reason. Respondents' reports about productivity and employee attitudes are also significantly related ($r = .44$). Reported attitudes are improved by company information sharing. (See page 26.)

There is one exception to the nexus of intent, influence and good outcome that has been pictured. In 1978, the second most frequently cited area needing improvement was employee attitudes. There is no difference in reported attitudes and morale today.

One-fifth of the companies cannot withstand a strike, about the same proportion as in 1978. Their ability to control the outcome of negotiations is lessened by strike exposure. However, these strike-vulnerable companies do not report significantly poorer climate measures—other than losing control over bargaining.

Formal relationships with the union have improved, according to the ratings of "ability to work cooperatively with the union during the agreement." This cooperative atmosphere is strongly related to avoidance of legalistic maneuvering ($r = .59$) and to the performance of the grievance procedure ($r = .51$). These elements of the relationship were described as "good" in both studies.

Overall, there are no fireworks in major bargaining units. The union has more than a foothold here; there are aspects to the management-union relationship that resemble those of a long-standing marriage. In a highly unionized company, if management wants to increase productivity, increase employee involvement, change work culture—it must do so in a union shop. That means working with, or through, the union.

Chapter 5
Human Resources and Labor Relations

AS EMPHASIS ON collective bargaining with the union has diminished in importance, there seems to be more involvement in direct relations with employees. Not only are companies undertaking a wide variety of employee-involvement strategies, they are involving line management in functions that were formerly handled by staff. Most report that operating managers are increasingly concerned with human-resource planning, development and training. Fifty-three percent of companies report that the role of line management in introducing employee participation is increasing. (See Table 9.) It is likely that human-resource development, human-resource planning, and employee involvement are considered more crucial than labor relations to the firm's overall success. This may be the reason for the movement of these functions away from staff and into line purview.

Above all, operating management must be concerned with deploying and directing the use of all resources—capital, technology, materials and manpower—toward efficient production of goods and services. For this reason, "manpower management" is, in fact, what line management has always been doing. The staff role has been advisory. Now, under competitive pressure to get more product from human resources, line managers are taking initiative. This involvement focuses on the resource-exploiting territory: planning, development and organization—the three top functions on Table 9.

Labor relations has been delegated to a specialized staff concerned with bargaining and administering the contract. This function is becoming more concerned with the companies' business performance, as management's wage objectives are more and more affected by internal factors. This inward turning for wage guidance causes labor-relations staff to become more knowledgeable about "operating cost structures and relationships, including labor cost per unit of output in each plant... (to) become microeconomists dealing with the price of labor as one of the factors of production."[1]

Labor relations is still concerned primarily with the institutional relationship between company and union. However much microeconomic concerns may grow, they are only influencing what is a law-driven institution. In the presence of unions, management cannot "unilaterally" take many of the actions discussed in Chapter 3. It cannot unilaterally set wages, differentiate among employees, establish employment policy. A contract governs the union-management relationship, and it governs major aspects of employee management. It has grown increasingly detailed over time; it fixes practice in the past. Making changes in this detailed rulebook requires a management strategy for change *and* a management strategy for negotiating and implementing change in a bilateral (unionized) context. Under the circumstances, it is understandable that more innovation in human-resource management takes place in nonunion settings. Without a union, management has only to contend with its own organizational inertia; union inertia and conservatism—and the contract—are not added hurdles. Nor does management have to build a full-scale campaign to overcome union hostility and suspicion, which may be present in some cases.

Although labor relations has diminished in importance within the whole human-resource configuration, it is increasingly a dollars-and-cents subject. Companies weigh the performance of their labor-relations staff in terms of results achieved in bargaining. Specifically, they evaluate the reduction in labor costs achieved in bargaining. Less emphasis is put on the size of settlements as compared with the rest of settlements in the same industry. The priority placed on labor costs suggests that a broad scope is being used: How do *all* the terms of a settlement—taken together—work to reduce labor costs per unit of output or service?

There has been a shift toward even heavier emphasis on this labor-cost factor since 1978. At the same time, there is diminished emphasis on strike avoidance, and some decline in concern with union relations in general. Table 10 compares the answers given in 1978 and in 1983, by the same companies with the same bargaining units in both periods. Even though the weighting scheme prevents drastic change, the realignment of emphasis is apparent. Labor relations managers are not judged in terms of their ability to "keep the peace" or avoid conflict with unions. Nor are they judged on their ability to develop and maintain cooperative and stable relationships with unions. These

[1]Freedman and Fulmer, 1982, p. 48.

Table 9: Locus of Primary Responsibility for Various Human-Resource Functions

Function	Line Executive	Human-Resource Executive	Labor-Relations Executive	Involvement of line or operating executives and managers is	
				Increasing	Decreasing
	%[a]	%	%	%	%
Introducing employee-participation processes	28	58	17	53	3
Human-resource planning	23	69	8	51	3
Human-resource development and training	20	74	8	51	4
Strategies relating to government regulation in the human-resource area (ADEA, EEO, OSHA, etc.)	5	76	22	22	6
Compensation budget decision	16	60	5	22	6
Developing the company's objectives on wages and benefits	6	68	23	24	4
Establishing outside limits for wage bargains (unionized companies only)	19	28	42	16	4
Directing union avoidance activities	11	48	47	26	2
Developing overall policy toward unions and unionization	6	44	44	21	6

[a]Details may add to more than 100% in each row, because there were multiple responses.

were relatively unimportant in 1978, and are even less important now. To top management of the firm, and to the top human-resource executive, labor-relations managers are there to cut labor costs.

Chief Executives' Role in Labor Relations

When it comes to money, the chief executive is directly involved. Wage objectives in bargaining, and wage "limits" beyond which the company will not move, are approved by the chief executive in nearly every case. (See Table 11.) When this fact was discussed at a Conference Board meeting of chief executives, the explanation was as follows: bargained wage decisions are uniform and "fixed" for the period of contract. Therefore, a negotiation establishes fairly fixed costs for one factor of production, which can only be reduced by cutting labor content. Is it any wonder that CEOs must approve a decision with such heavy impact?

Moreover, the loss of company self-determination that accompanies unionization is serious enough to require CEO approval on overall policy toward unions and unionization, and union-avoidance strategy. On the other hand, it is *operating* management's unilateral power that is at stake should union organizing succeed. This is an explanation for line and operating management's increased involvement in union-avoidance policy in one-fourth of the companies, and increased involvement in overall policy toward unions in a fifth of responding companies. (See Table 9.)

Chief Executive's Role in Employee Relations Policy and Planning

The chief executive's approval of wage policy for nonunion employees is necessary, even though the issue may be a change in benefits, a merit budget increase, or some wage element even more responsive to business conditions. The compensation budget is set by human-resource executives or, infrequently, by line managers, and approved by the CEO. Here there is the only role reversal in Table 11: In nine percent of the responding companies, the CEO suggests and the human-resource executive reviews and approves. This review is probably more in the nature of a consultative readjustment, given the relative position of these executives in the corporation.

Table 10: Factors Used to Evaluate the Labor Relations Function[a]

Factor	Rank (1 = highest) 1983 Ranking*	1978 Ranking*
Effects of negotiations on labor cost	1.7	1.9
Size of settlement compared with industry settlement	3.0	3.0
Employee attitudes and morale	3.1	3.1
Cooperative relations with union	3.6	3.4
New union organizing	4.4	4.3
Unexpected strikes during negotiations	4.9	4.5
Wildcat strikes during contract	5.5	5.1

[a]All companies answering the question in both years, with the same bargaining unit in both years (N = 190).

*If ranked 1-3, weighted accordingly; if item was checked "not a consideration," it was weighted 8; if neither ranked 1-3 nor checked "not a consideration," item was weighted 4.

Table 11: Structure of Command for Human Resource Responsibilities

Function	First person listed has primary responsibility	Second person listed reviews and approves	Relative frequency of reported structure [a]
Human-resource planning	H.R. Exec—CEO		52
	Line Exec—CEO		12
	H.R. Exec—Line Exec		6
Human-resource development and training	H.R. Exec—CEO		42
	H.R. Exec—Line Exec		16
	Line Exec—H.R. Exec		10
Introducing employee-participation processes	H.R. Exec—CEO		25
	H.R. Exec—Line Exec		16
	Line Exec—H.R. Exec		8
Strategies relating to government regulation	H.R. Exec—CEO		40
	L.R. Exec—CEO		12
	H.R. Exec—Line Exec		11
Compensation budget decision	H.R. Exec—CEO		52
	Line Exec—CEO		9
	CEO—H.R. Exec		9
Developing company's objectives on wages and benefits	H.R. Exec—CEO		51
	L.R. Exec—CEO		17
	Line Exec.—CEO		4
Establishing outside limits for wage bargains (unionized companies)	L.R. Exec—CEO		24
	H.R. Exec—CEO		16
	Line Exec—CEO		6
Developing overall policy toward unions and unionization	H.R. Exec—CEO		29
	L.R. Exec—CEO		28
	L.R. Exec—H.R. Exec		6
Directing union avoidance activities	H.R. Exec—CEO		24
	L.R. Exec—CEO		19
	L.R. Exec—H.R. Exec		10

[a]Only the three most frequently reported structures are shown.

Human-resource planning is of equal importance. This subject has come up the scale of attention in two ways. First, whether human-resource or line executives do the company's human-resource planning, it is reviewed and approved by the CEO. Perhaps a more precise interpretation of this involvement would be to say that it is in the CEO's office that business planning and human-resource planning intersect—or are coordinated. Second, human-resource planning is one of "the top three" subjects with strong growth of involvement by line management.

Chief executives review human-resource development and training plans in about two-fifths of responding companies. Employee-participation programs are approved by the top executive in one quarter of the companies. These are so clearly operating-level functions in their focus and effect that the chief executive's role may be more to generate the idea and to look on with approval as it takes hold. (See box.) On the other hand, the CEO may undertake symbolic or actual engagement. Philip Caldwell, Chairman and Chief Executive of Ford Motor Company, recounted his experiences as a member of a Ford quality circle at a 1983 Conference Board human-resources conference. His participation with production employees vividly communicated the priority the company gives to employee-involvement programs.

"The Top Three"

Grouping the top three functions in Table 11—human-resource planning, development and participation processes—distinguishes them from the last three, union-related, functions. Line managers are involved in the human-resource "three" to an increasing degree in most companies. Moreover, line executives are likely to have initial responsibility in at least one out of five companies. And where it becomes necessary because the company is heavily unionized, a labor-relations specialist is also involved.

The human-resource item contrasts with the last three: Those are labor territory, dealing with the institutional relationship, or legal and strategic means to avoid an institutional intrusion. Here, there is less line involvement, less line responsibility. Yet even in these specialized labor-relations functions, line involvement is increasing slightly. As Kochan and Chalykoff suggest (see pages 18-19), where more innovative employee-management techniques are being tried, labor-relations specialists are less likely to be calling the tune. The explanation may be simple: Developmental innovations are less difficult to introduce and expand in nonunion settings. The largest number of labor-relations specialists, however, are found in highly unionized settings. Their job is to tend the bilateral relationship. Their lesser involvement in human-resource development is a result of location and responsibility. It is not necessary to seek an explanation by speculating that labor-relations experience precludes creative thinking in human-resource development.

> "I believe line managers should be the key individuals in focusing down to the business and the workers.
>
> "What human resources must manage is teaching the 'How to's' for line managers, to help them convert from judges and bird-dogs to coaches, counselors and facilitators. The biggest initial obstacles are (1) the managers, and (2) the systems that exist in the workplace, of which 85 to 90 percent are within management's control.
>
> "Human-resource people need to serve as the tools and facilitators for implementing the change, for gearing up the training effort, for changing the orientation programs to state of the art; to audit the communications process, to oversee a network of cross-functional employees to share experiences and grow through learning, to learn and then teach the statistical techniques that are meaningful in measuring outputs.
>
> "How many HR people have been to Deming? (The U.S.-born 'father' of Japanese quality control techniques.) How many have been trained in statistical quality control techniques that have applicability in administrative, staff and nonproduction areas? How many have hired statisticians to aid them?
>
> "How many *good* measures of output do we have? What are the root causes of problem areas? How do we improve through worker understanding and participation? Should we postpone linking pay to output until we really understand what it is we want to pay for? (Most people don't really know what they mean when they ask for or brag about 'improved productivity.')
>
> "There is a real challenge to the HR function to get their act together and define their role in response to the need for improved quality, which improves our productivity and competitive edge and job security."
>
> —Comment from a member of the audience at a Conference Board Human Resource meeting, October, 1984.

Companies that are emphasizing productivity improvement as the chief way to cut labor costs and gain competitive advantage must look to human-resource management as well as technology. This is as true for union as for nonunion operations. Adverse comparison with competitors will bring union plants along the road of employee involvement; this has already begun in many industries. *Management's* human resources for doing the job could well be labor-relations specialists. Those who look beyond the institutional and legal aspects of union relations will be best fitted to work with line management in a campaign for productivity enhancement.

Change Will Continue

Throughout this report, the pressure of competition can be seen to be reshaping the management of employee rela-

tions. As long as competition is present, it will continue to affect employee and labor relations. If the nation should adopt an industrial policy of restraints on competition in some industries (producer protection or reregulation), the pressure to innovate will lessen. Would we then return to the wage imitation and pattern bargaining of the 1970's? As the *structure* of industries is not likely to return to the 1970's, so labor relations and wage patterns that were determined by that structure could not revert to their former shape. However, protection from competition would increase an industry's ability to raise prices. It would, therefore, permit wage formulas and wage imitation to develop—probably only among the most protected industries. Competition has:

- reduced wage imitation and pattern-following.
- turned companies inward, toward labor costs and profitability, for wage-setting guidance.
- forced parsimony in benefit design.
- drawn human-resource and line management together.
- moved nonunion facilities toward more information sharing; participative management; and, to a limited extent, gain sharing.
- destabilized bargaining and union-management relationships from the "settled" character they showed in the 1970's.
- created opportunities to reduce labor costs through higher productivity arising in better management and market-determined, competitive wage levels.